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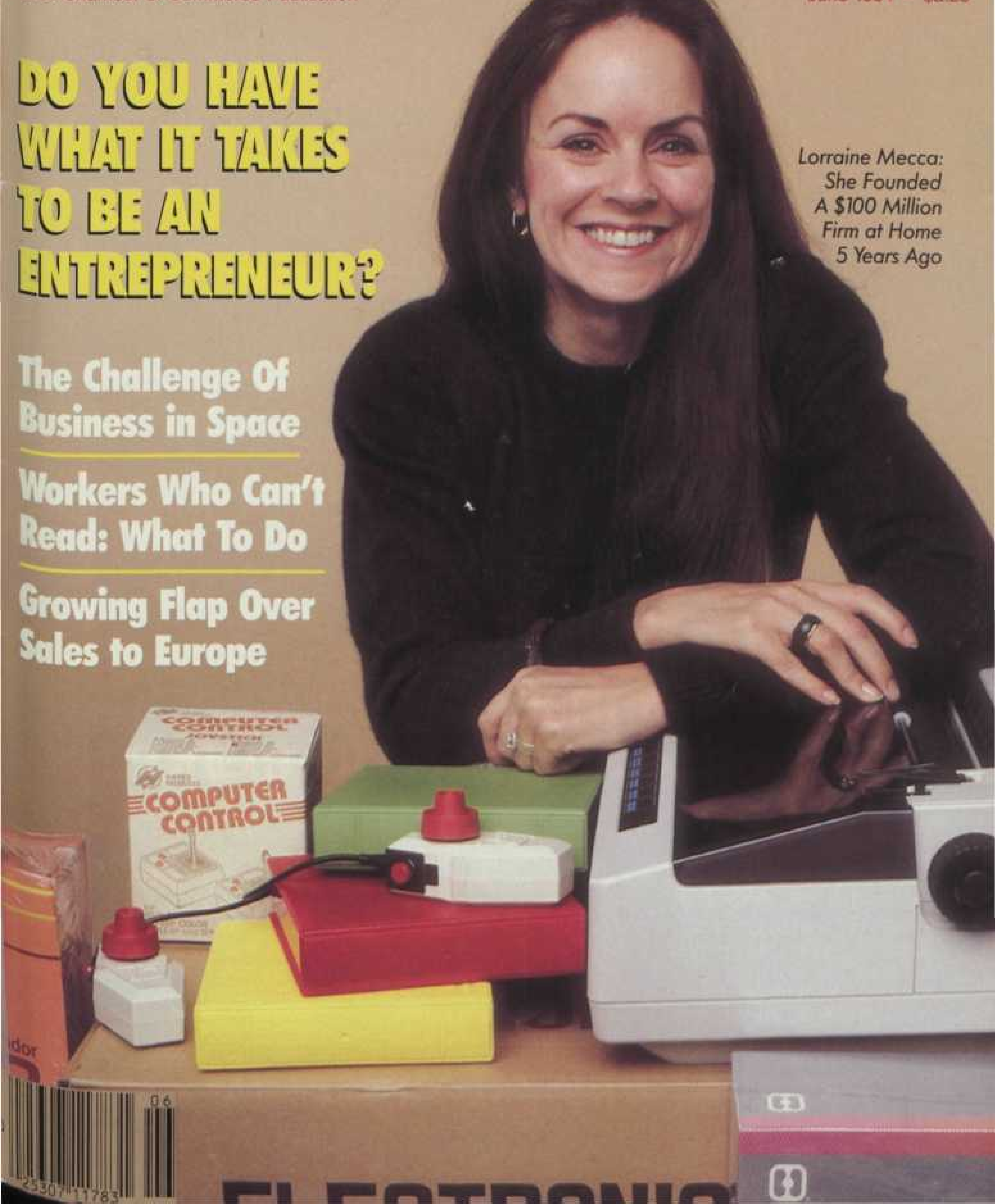

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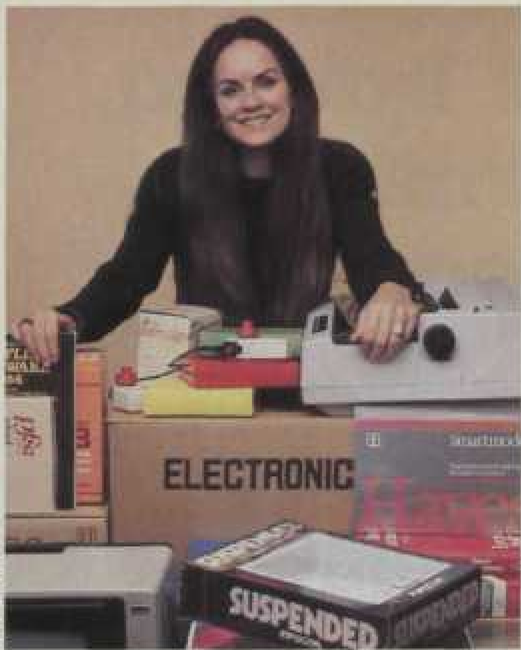

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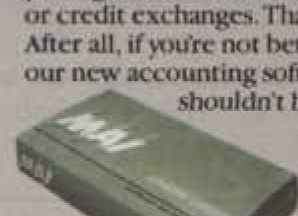

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BY JAMES J. KILPATRICK

The White House and the Court

BACK IN 1907, Charles Evans Hughes went to Elmira, N.Y., to make a speech. His address is remembered to this day for only one part of one sentence. Hughes was then governor of New York; three years would elapse before he would begin the first of his two terms on the U.S. Supreme Court. He was 45 years old. This was the memorable line:

"We are under a Constitution, but the Constitution is what the judges say it is."

Well, most of us say things at 45 that we later regret having said, and Hughes was no exception. His statement was oversimplified, for the Constitution is much more than merely "what the judges say it is," but Hughes at Elmira uttered one of the most profound truths of American government.

In the beginning of our republic, it was thought that the judiciary always would be the weakest of the three branches of government. But in any area of political existence that is subject to litigation—and that is every area under moon and sun—the federal judiciary has become by far the most powerful of the three. At the top of the pyramid sit the nine Justices of the High Court. For all practical purposes, the Constitution means exactly what any five of them, on any given issue on any given day, say that it means.

It is the Elmira Truism that makes this year's presidential election of exceptional interest. Justice William Brennan marked his 78th birthday on April 25. Justice Thurgood Marshall will be 76 in July. Justice Lewis Powell and Chief Justice Warren Burger will be 77 in September. Justice Harry Blackmun will turn 76 in November. One does not have to qualify as either actuary or historian to suggest that some of these distinguished gentlemen may retire, or may be called to a still higher court, during the four-year term of the next President. In that event Ronald Reagan, or perhaps Walter Mondale, will have an opportunity to put his nominees in a position to say what the Constitution means for many years to come.

I am not at all certain the Founding Fathers recognized their own stroke of genius. In the beginning the Supreme Court was held in generally low esteem. It was not until John Marshall began to flex his muscles that the country began to grasp intimations of what had been created, and even Marshall exercised both prudence and deference in making the Court's powers explicit.

Only in the 20th century have we seen the magisterial machinery of the Supreme Court in high gear. Just in the 15 years of Burger's chief justiceship, by one scholar's account, 34 federal laws, 182 state laws and 13 local ordinances have been found unconstitutional. The power vested in a majority of the Justices, to put it bluntly, is awesome.

And the Justices are mortal. That is the key thing. Our reverence for the judiciary is so engrained that we tend unthinkingly to accord the Court's nine members a kind of Olympian status. This is hokum.

The Justices bring to their opinions the sum total of all the influences that have shaped their philosophy. Does anyone truly believe that judges take off their prejudices as they put on their robes? Of course not. On such issues as capital punishment and affirmative action, the votes of Brennan and Marshall are as precisely predictable as the phases of the moon. Hugo Black and William Douglas would not even listen to argument in pornography cases; their minds were made up before counsel arose.

The Justices are mortal. That is the key thing.

Let us suppose, *arguendo*, that Reagan is re-elected in November and that opportunities develop for him to nominate new members of the Court. He will do his utmost, we may reasonably assume, to name Justices in the conservative pattern of his first nominee, Sandra Day O'Connor. He will search for candidates in their 40s or 50s, with a view toward having them serve for 15, 20 or 25 years. His undisguised purpose will be to put a conservative stamp upon the Constitution for a generation yet to come. Mondale, of course, would follow the same course by his own lights.

AS JUSTICE Robert Jackson (1892–1954) once observed, this is how the system is supposed to work. "The Court is almost never a really contemporary institution," Jackson wrote. "The operation of life tenure in the judicial department, as against elections at short intervals of the Congress, usually keeps the average viewpoint of the two institutions a generation apart. The judiciary is thus the check of a preceding generation on the present one, a check of conservative legal philosophy upon a dynamic people and nearly always the check of a rejected regime on the one in being."

A President's judicial nominees, to be sure, do not always stay tied to philosophical moorings. Witness Richard Nixon's nominee, Harry Blackmun. But the general proposition holds true. Franklin D. Roosevelt put Black and Douglas on the Court. Black served for 26 years, Douglas for 30, after FDR was in his grave. Think about that, my brothers and sisters, when the time comes to cast your ballot. □

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WASHINGTON LETTER

▶ REAGAN ECONOMIC POLICY is main cause of economic recovery, say 75 percent of delegates at U.S. Chamber of Commerce annual meeting. Opinion poll shows 14 percent believe recovery was due to economic factors not related to government policy, only 2 percent credit recovery to delayed result of Carter policies. To reduce budget deficits, 63 percent say cut government spending, 1 percent say raise taxes, 35 percent say do both. Stunning 93 percent say economy is in better shape today than four years ago. Fifty-eight percent say inflation rate will be between 3.2 percent and 5 percent this year, 26 percent say between 5 and 7 percent. During the next decade, say 77 percent, the United States will become more conservative; 6 percent say much more conservative, 12 percent say more liberal.

▶ HIGH TECHNOLOGY OCCUPATIONS will grow 46 percent in next decade but still will account for only 6 percent of new jobs, according to study. Stanford University researchers, using projections from Bureau of Labor Statistics, National Science Foundation and Institute for Economic Analysis, say total growth in building custodians alone will outrank combined increase in many high tech jobs like production, use and repair of computers.

▶ ELECTRICITY DEMAND expected to increase 2.5 percent a year until 1992, says Price Waterhouse survey conducted for National Electrical Manufacturers Association. Utility companies questioned in survey have lowered their initial projections every year since 1974.

▶ NUCLEAR REGULATORY COMMISSION could issue operating licenses to as many as 13 nuclear power plants this year, approaching record of 14 licenses issued in 1974. If all 13 plants become operational, nuclear power could produce 23 percent of nation's electricity, compared with present 12.9 percent. Despite this increase in the number of plants operating, one prime contractor, Bechtel Power Corporation, says two years of project cancellations and postponements are forcing it to reduce its work force because of cutbacks in planned construction of new nuclear plants.

▶ PRESIDENT REAGAN PROCLAIMS June 3-9 as "Management Week in America," says managers have "essential role in ensuring the continued strength of the American economy." Charles A. Rue, chairman of the National Management Association, says there is growing need for "quality managers--first-line supervision, middle and executive."

▶ CLARIFICATION OF TAX RULES on employe benefit cafeteria plans answers some questions, leaves others cloudy. Biggest relief to businesses in Internal Revenue Service announcement is decision that new rules on reimbursement accounts applying June 1 will not be retroactive. Reimbursement accounts let some employes take cash at the end of the year that was not spent on benefits. Money paid into such accounts by employers but not used to pay benefits will now be considered taxable income for employes. Many employers set up such plans after 1978 law made them possible.

▶ CLOSE SENATE RACES are seen in seven states by Sen. Richard G. Lugar (R-Ind.), chairman of National Republican Senatorial Committee. Lugar tells Association Insiders at U.S. Chamber of Commerce that GOP is concentrating on races in North

Carolina, Iowa, Mississippi, Tennessee, Texas, Illinois and New Hampshire. All have Republican incumbents who are retiring or being challenged by strong Democrats. Most expensive race is in North Carolina, where Jesse Helms has spent $6 million already, primarily on television ads targeting record of Helms' challenger, Democratic Gov. James Hunt.

▶ REALTORS ARE ALARMED by "rash of misleading stories," mainly on network television, suggesting that adjustable rate mortgages are "consumer time bombs." Realtors say ARMs have helped millions get into housing market and now represent 60 percent of all mortgages. Most are now written with limits on how high interest can rise, defusing any possible "time bomb" effect. ARMs are designed to help first-time home buyers get started with lower payments at first, higher payments when their income rises. Donald Treadwell, president of National Association of Realtors, is leading campaign to counter scare. He is making series of speeches, giving media interviews.

▶ EMPLOYE BENEFIT EXPERTS think Congress may pass another major pension regulation bill. Reason is increase in number of overfunded pension plans being dissolved, with excess assets being captured for corporate use. One congressional proposal would put moratorium on such action for funds over $1 million while Congress studies situation.

▶ INTERNAL REVENUE SCANNER is examining all income tax returns coming into IRS regional center at Brookhaven, L.I. Optical scanner reads tax returns and W2 forms and matches figures with data on 1099 forms (interest and dividends paid) from corporations, banks and brokerages to see whether all income is reported. Human scanners used to process only 16 percent of returns this way. Next year all 10 regional IRS centers will have their own machines and will read additional income data, like unemployment insurance, nonemploye compensation and gambling receipts. The Brookhaven machine is expected to bring in $100 million in additional revenue this year.

▶ INDUSTRIAL STATISTICS are now being released from the 1982 Economic Censuses. Four-page booklets are ready on wholesale trade, retail trade and service industries. For example, 1982 wholesale tobacco sales in New York State were $2.6 billion, more than in next four states combined. Individual car wash receipts averaged $157,000 in 1982, up from $114,000 in 1977. New car sales by 25,641 U.S. dealers were $152.1 billion, led by California with $16.3 billion; Texas, $13.9 billion; and Florida, $8.8 billion. Census Bureau's business division has details.

▶ NATIONAL LABOR RELATIONS BOARD expands employers' right to question employes about union activities. Action overturns 1980 board decision that "ignored the reality of the workplace," says new ruling by Chairman Donald L. Dotson and members Robert P. Hunter and Patricia Diaz Dennis, all Reagan appointees. Ruling says questioning of employes is permitted if it is not threatening.

▶ HOW MUCH OF YOUR DAY goes to pay taxes? Tax Foundation, Inc., says in typical worker's eight-hour day, 2 hours and 40 minutes is needed to pay the worker's tax bill. In 1930, says watchdog group, federal, state and local taxes took 57 minutes out of each day. In 1940, 1 hour, 29 minutes; in 1950, 2 hours, 2 minutes; in 1960, 2 hours, 22 minutes; in 1970, 2 hours, 34 minutes; in 1980, 2 hours, 43 minutes. Latest figure includes 1 hour and 43 minutes for federal taxes and 57 minutes for state and local taxes.

▶ INDIVIDUAL TRAINING ACCOUNTS, resembling individual retirement accounts, are being proposed in Congress. They would provide funds to retrain unemployed workers. Contributions would not be taxable until withdrawn and would be available as soon as worker drew unemployment compensation. One bill would require employer contributions greater than present unemployment tax. Critics fear easily accessible funds would be strong work disincentive. Workers could take training, needed or not, draw full unemployment benefits instead of seeking work.

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Defining "Equality"

James J. Kilpatrick's column, "Still More Equal Than Others" [April], erroneously implies that American laws and court decisions give blacks and other minorities favored treatment. Nothing could be further from the truth.

Reflecting on *Brown v. Board of Education*, the Civil Rights Act of 1964 and the *Weber* and *Fullilove* cases, Kilpatrick states that "far from being color-blind, our laws are color-obsessed." But laws are not enacted in some vacuum or utopia. Racial prejudices and inequities are very much part of the American reality, and it is naive to think that American laws should ignore them under the pretense of being color-blind.

Kilpatrick describes the *Brown* case as being legally wrong but morally right. Should the issue of racial discrimination have been resolved by our churches? We think that our elected Congress and our courts are the appropriate forums to address this issue.

The Civil Rights Act and the issues involved in both *Weber* and *Fullilove* centered on the constitutional power of Congress to remedy the effects of past racial discrimination.

The beauty of American law is its ability to adapt to an ever-changing society. Our laws must reflect the realities in our society. In an ideal world, perhaps, laws can be color-blind. But then, in an ideal world there would be no need for laws at all.

CARL W. BATTLE
Business Manager
National Legal Information Services
Akron, Ohio

I congratulate James J. Kilpatrick for having the courage to write—and this magazine for having the courage to publish—his essay about affirmative action.

I was privileged to have been reared in the Deep South by well-educated parents. I was taught and developed a liberal attitude toward blacks at a time when most of my contemporaries considered it odd and contrary to contemporary mores. It is indeed sad that I now find myself becoming more of a racist because of the very things related in Kilpatrick's essay.

ROBERT B. MCCORD, JR.
Hapeville, Ga.

We hear nothing from our present White House aspirants about balancing the scale. No, that would be the kiss of death.

How can we get to the middle of the road when the High Court that makes the decisions consists not of elected officials but the appointees of power-motivated individuals? WILLIAM J. LUCAS
Phoenix, Ariz.

When I was a young white Southern attorney, I learned about Justice John Marshall Harlan's "color-blind Constitution." Further study and experience have taught me that the learned Justice was wrong. "Color-obsessed" is a more appropriate term for our laws and courts.

Under our current laws, racial discrimination involving all races is much more rampant than it was 30 years ago.

WILLIAM G. LEWIS
Jackson, Miss.

Please allow me, one who is not yet a "person" in constitutional law except for voting purposes, to offer another view on the state of progress 30 years after *Brown v. Board of Education*.

I will not attempt to argue the law with Kilpatrick; rather, I suggest that creative management can meet the moral obligation he readily acknowledges without the reverse discrimination he deplores.

Although the minority population of this city was approaching 20 percent in the mid-1970s, this newspaper only occasionally employed a minority worker or two. We started reaching out to minorities. We sought to involve them in every way possible with the newspaper—employment, customers, news

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CHRISTY C. BULKELEY
Editor and Publisher
Commercial-News
Danville, Ill.

The cost of health

Re: "Competition Comes to Medical Care" [April].

It is about time some companies started to shop around for better prices. The cost of health insurance is out of this world.

As an example, we started out at $124 per month for a husband and wife. In two years we were jumped to $971.76 for the same coverage. Or we had the choice of spending $218.72 per month for a $2,500 deductible and only 80 percent payable.

Now do you understand why this country is in such horrid shape? I do. Too bad more individuals, as well as companies, do not stand up and say, "We are sick and tired of this mess!"

Let's do something to make people more aware of what is going on.

ROY AND EDYTHE DEMAGUE
Mount Pleasant, Tex.

Bridging cultures

"Learning To Work Overseas" [March] made a number of salient points about cross-cultural training.

Like many of my peers in technology transfer, I have been an advocate of cross-cultural training for years and have spent five years since 1974 on international assignment.

One point I would add is that companies serve their best interests by bringing on staff professional trainers with an interest in cross-cultural communications, as opposed to area experts. Not that area experts should not be on the staff at all, but professional cross-cultural trainers have the expertise to prepare large portions of necessary training materials of both a culture-general and a culture-specific nature. They also have the ability to evaluate and incorporate conclusions that may have been offered by an area consultant.

THOMAS E. PREISSER
Supervisor, Training Evaluation
Bechtel Power Corporation
Midland, Mich.

The truth comes out

In "Kudos for a Tramp and a Motor Mouth" [April], the evidence is finally in print. In the first sequence of photos from the Federal Express commercial, you will notice the fish food next to the goldfish bowl in the background.

In later frames, however, the fish food disappears. On TV the fish food makes several disappearances and reappearances.

Though I consider this an insignificant point—continuity experts would disagree—I nevertheless enjoyed finding the inconsistency. Looking for such minor flaws is a good way to stimulate the mind while viewing a medium that usually lacks interest.

And yes, I do think the Federal Express commercial received the recognition it deserved.

ROBERT P. HENDERSON, JR.
L.L. Baumunk & Son, Inc.
Shunk, Pa.

What's a firm worth?

Richard M. Rodnick's rule of thumb, quoted in "Selling Your Company" [March], that a company's value is five times its net is valid for large businesses but not for small businesses.

Consider two quick examples of small business.

First, a mom-and-pop hamburger stand with annual gross sales of $200,000, net profit of $37,000 and equipment whose replacement value is $6,000. Based on Rodnick's rule of thumb, the business has a realistic market value of $185,000. That is too high. A realistic market value would be $57,000 to $66,000, with the terms being the variable.

Second, an incorporated machine shop with annual gross sales of $600,000, net profit of $30,000 and equipment whose replacement value is $390,000. Five times net is $150,000, but the market value may be more like $420,000.

A rule of thumb I have used for years is one to three times net, depending on the risk factor of the business and terms offered by the seller, plus equipment value.

J.C. MELVIN
Hoppe Realty, Inc.
Las Vegas, Nev.

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*See your dealer for details.
†Your mileage will vary.

IVECO
The street diesel.

Will Refunds Be Spent or Saved?

What will 70 million taxpayers do with the $60 billion the Internal Revenue Service says it is refunding from 1983 tax collections? (Checks have averaged a record $743 on $30 billion already sent back.) Decisions on how much of this money is spent or saved could have a big effect on the economy this summer.

Too much spending of the refund money could arouse fears of inflation and force short-term interest rates higher. Too little spending could cause retail inventories to balloon, and with that would come the possibility of an economic slowdown before the November elections.

Some clues suggest that a healthy balance may be struck.

Recent government figures reveal that individuals are finally saving a larger percentage of their incomes, after saving at an abnormally low rate for a few years. Hourly earnings are growing in real terms for the third year in a row—the first time that has happened since the mid-1970s—leaving taxpayers with more to spend and to save. An inflationary binge is less likely now that much pent-up demand for houses, cars, and consumer goods and services has been satisfied.

The incentives that high real interest rates provide—to save and invest—are now working. The resulting growth in the capital pool will alleviate pressure for still higher interest rates and help credit markets finance federal budget deficits.

Housing: Still Healthy

The Federal Reserve is methodically reining in the unrestrained economic growth that occurred in the first quarter. Through sales of Treasury bills, notes and bonds, the Fed is taking money out of commercial banks—money that consumers and businesses could otherwise borrow.

Interest-sensitive housing construction is most immediately affected by this belt tightening, but contractors are not getting pinched.

Instead of building more than 2 million housing units—as was indicated by the level of building starts early in the year—contractors should put up a respectable, but less inflationary, 1.9 million units, according to a U.S. Chamber of Commerce forecast. (By comparison, only 1.1 million housing units were built in 1982; 1.7 million were built in 1983.)

When conventional mortgages carry today's average rate of close to 14 percent, only about 1 in 7 single-wage-earner families can afford a $60,000, 30-year mortgage, according to the National Association of Home Builders.

PHOTO: SPIDER MARTIN

The Treasury Department prints 300 tax refund checks a minute at this facility in Birmingham, Ala.

Mortgages of that size and duration can be afforded by 1 in 5 families, though, if they are adjustable rate mortgages, the association says. ARMs fluctuate with changes in the overall interest rate level. Such mortgages can cut two percentage points or more off the interest rate for conventional home loans.

A growing number of home buyers are taking advantage of this innovation. The latest figures show that ARMs accounted for about 60 percent of mortgages issued in the fourth quarter of 1983.

Strong demand this spring for home mortgages and auto loans, plus the healthy volume of commercial and industrial borrowing, belies the high level of interest rates relative to the inflation rate. The economy is acting as though interest rates are too low, some economists say, and rates may have to move higher in order to cool loan demand and thereby avoid a new bout of inflation next year.

Concern About ARMs

A word of caution about adjustable rate mortgages comes from Preston Martin, vice chairman of the Federal Reserve Board. He is concerned that underwriting standards have been lowered to qualify more people for ARMs, thereby increasing the risk of defaults during the next recession.

Especially at risk, Martin says, are financial institutions and individuals who are putting into their investment portfolios securities issued in the secondary market and backed by high risk mortgages.

Martin also admonishes investors to get a property appraisal before investing in such real estate tax shelters as property syndications. He calls them "a heck of a risk" and says they may cause problems like those experienced by real estate investment trusts in the 1970s.

Property syndications are popular today because of real estate tax benefits in the 1981 tax bill. These benefits generate cash flow for investors, shelter it from income taxes and convert ordinary income into capital gains.

Such incentives, some economists say, may be responsible for the strong demand for construction financing. The tax bill before Congress would reduce those incentives by lengthening the 15-year period for depreciating the cost of income-producing structures.

Hitting the Road

One industry that is sure to benefit from the healthy cash position of consumers is the travel business. Gasoline prices are below their 1981 peak, supplies are ample, new-car sales are a quarter larger than last year's levels—all indications that many families will take deferred summer vacations this year. For many consumers, economic conditions now are the best in six years.

For travelers going abroad, weakness among currencies used in the most popular tourist destinations—in Europe, Mexico and Canada—means high value and low prices. □

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Back to the White House

A second White House Conference on Small Business is in the works, thanks to legislation passed this spring with the backing of many small business groups.

President Reagan has signed a bill that authorizes the federal government to take the lead in an effort to articulate small business concerns, starting next year with state and regional meetings and culminating in a national conference in Washington.

The series of events is to be held during the 20 months between Jan. 1, 1985, and Sept. 1, 1986. The legislation directs the Small Business Administration to coordinate the regional meetings and the national conference. The agency played much the same role for the first White House Conference on Small Business and related events in 1979-80.

Although only preliminary planning is now under way, SBA officials say the second conference will likely be organized along the lines of the first, which saw 25,000 small business owners participating in 57 regional conferences. Delegates at those meetings sent more than 2,000 delegates to the national event, held in January, 1980.

That conference resulted in 60 recommendations for legislative and regulatory changes; about half the recommendations have been acted on in some way.

Support for the second conference is widespread among small businesses. Major membership organizations that have advocated a second event include the U.S. Chamber of Commerce, the National Small Business Association, the National Federation of Independent Business and the National Association of Manufacturers.

Sponsors of the recently passed legislation included the chairmen and ranking minority members of the congressional small business committees: Sens. Lowell P. Weicker, Jr., (R-Conn.) and Dale Bumpers (D-Ark.) and Reps. Parren J. Mitchell (D-Md.) and Joseph P. McDade (R-Pa.).

Calling the conference delegates' upcoming recommendations a "likely blueprint" for the Senate committee in future years, Weicker adds: "The small business community should be given the opportunity to take another look at itself and its relationship with the federal government, and at its problems, its potential and the incentives that affect its growth."

Although supporting a second conference, the U.S. Chamber urged Congress, before the legislation was passed, to hold down conference costs as much as possible and to require delegates to pay their own way, as they did in 1980. The bill includes this requirement.

PHOTO: DOUG CURRAN

Senate Small Business Committee Chairman Lowell Weicker presses for a new White House small business conference.

R&D Partnerships

The stock market's long decline over the last nine months has sent entrepreneurs looking for development capital in other places, reports one of the Big Eight accounting firms.

Research and development limited partnerships with investors are fast becoming a popular financing technique for small companies, say officials at Arthur Young, the national accounting firm.

"We have seen a rise in the number of R&D limited partnerships and a significant increase in the number of companies seeking these partnerships, especially in biotechnology," says Steven Burrill, national director of the high technology group at Arthur Young.

"The downtrend in the stock market that began last fall cut the prices of many high tech stocks and reminded entrepreneurs about the market's volatility," Burrill says. "That reminder, along with the difficulties of initial public stock offerings, will lead more companies to use limited partnerships to finance R&D projects this year."

Limited partnerships are those in which investors take part ownership of a company in return for investing money. Unlike general partners, limited partners have no say in the day-to-day management of the company or in larger decisions and are liable only for the amount of money they have invested if the business takes a bad turn.

Commerce Department figures show that investment in such partnerships reached nearly $1 billion last year.

Compared with the sale of stock, limited partnerships offer several advantages to companies looking for ways to finance R&D projects. Through a limited partnership, R&D costs can be kept off the balance sheet, where they would otherwise increase debt. And interest-free financing through a limited partnership avoids the greater dilution of equity that would occur from a public offering of company shares.

Burrill advises entrepreneurs to study carefully all aspects of an R&D limited partnership. "Businesses should not rush into an R&D limited partnership arrangement," he cautions. "The partnerships can be complex and must be well organized to achieve the benefits desired by the company and its investors."

Where the Money Is

Still looking for money? "Venture Capital: Where to Find It" is a new directory published by the National Association of Small Business Investment Companies.

The directory lists more than 350 companies that want to invest in small firms in exchange for stock or some other percentage of ownership.

Such small business investment companies are privately managed and operated financial institutions that are licensed by the U.S. Small Business Administration. Since their authorization in 1958 by Congress, SBICs, which get their seed money from the SBA, have channeled nearly $5 billion into 66,000 small companies.

"Venture Capital: Where to Find It" is available for $1 from NASBIC, 618 Washington Building, Washington, D.C. 20005.

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Watch Your Step on Depreciation

By Gerald W. Padwe, C.P.A.

One of the highlights of the 1981 Economic Recovery Tax Act was a new system of tax depreciation, aimed at improving capital formation. It included greatly shortened depreciable lives and liberalized investment tax credits. When a tax return showed a loss as a result of the increased deductions, the loss could be carried forward up to 15 years.

That was the good news. The bad news was substantial complexity, significant ambiguity and a host of questions for which regulatory answers were needed.

It took a long time—more than two years—for the Internal Revenue Service to propose regulations. Meanwhile, millions of businesses used their best judgment as to how fixed assets should be depreciated under the new Accelerated Cost Recovery System. IRS' proposed regulations fill 180 pages. If one of Congress' purposes in enacting ACRS was to simplify depreciation rules, that goal has not been completely met.

You may have assumed that the new regulations would allow as much flexibility in changing depreciation accounting as past rules did. If so, you will be disappointed.

Proposed regulations allow a taxpayer to choose between two methods of deducting depreciation: (1) accelerated deductions over a period of 3, 5, 10 or 15 years, the length depending on the type of asset, and (2) straight-line depreciation, under which costs are recovered ratably—that is, in equal amounts for each year of the asset's depreciable life—over periods like those mentioned above or over optional longer periods.

Every such choice must be made in the first year the property is used in the taxpayer's business, and, generally, the regulations permit no changes in the depreciation method first elected. Under the pre-ACRS depreciation system, changes in depreciation accounting were somewhat restricted but generally available; that is not the case under the recently proposed rules.

IRS' proposed regulations are intended to be retroactive, so taxpayers' choices for assets placed in service since 1980 are binding.

The agency has already been criticized for the inflexibility of the new rules, and some changes of accounting method may be allowed when final regulations are issued.

Home Office Deductions

It now seems settled that a room in your house, set aside exclusively as an office and regularly used as such after normal business hours, will not support a home office deduction if clients or customers do not visit but are in touch with you only by telephone.

In earlier cases, the U.S. Courts of Appeal for the Sixth and Ninth Circuits had come out against a U.S. Tax Court position that employing a home office for significant telephone work would permit a deduction as long as the office was used frequently and for nothing but business. Now the Tax Court has thrown in the towel and has agreed to follow the appeals courts' decisions. It will no longer permit home office deductions if a taxpayer does not meet in person with clients or customers in the office part of the house—at least, when personal contact is a normal part of the business.

In a related case—one whose impact probably will be limited to narrow sets of circumstances—the chief executive officer of a major corporation was permitted a deduction for the cost of a separate office he had built, at his expense, on his country property. The Tax Court was persuaded that he spent one month of each year making long-range plans for his company and that shutting himself off in headquarters would not have been practicable.

Note that the deduction in this case was not claimed for a home office expense. Since the separately constructed office consisted of only one 20-by-20-foot room that was not used as a personal dwelling, the stringent home office rules did not apply. The test for deductibility was whether the cost was an "ordinary and necessary" expense.

The "Rule of 78s"

Last June, IRS issued Revenue Ruling 83-84, disallowing the use of the "rule of 78s" in allocating interest among the taxable years covered by a loan. In effect, the rule of 78s assigns to the early years of a loan substantially greater amounts of interest than would result if the effective rate of interest were simply applied to any part of the loan term.

Lenders use the rule of 78s—named for the sum of the digits of the months in a year (12 plus 11 plus 10 . . .)—to maximize interest due them in the event the loan is repaid early. Tax shelters have used the rule of 78s to accelerate interest deductions taken by a borrowing limited partner. In some cases, interest deducted early in the life of a loan has exceeded the amounts actually paid on the loan.

In tax terms, the rule of 78s is a "method of accounting," and taxpayers are not permitted to change a method of accounting without IRS' permission. Unfortunately, last June's ruling merely disallowed the rule of 78s; it did not tell affected taxpayers how to change to an acceptable method.

Finally, after almost 10 months, IRS issued four revenue procedures delineating rules for making the change in various situations.

Many real estate shelters in particular are required to make the change on their tax returns for calendar 1983. Since most calendar year partnerships filed their 1983 tax returns before IRS issued its procedures, they must file amended returns by August 15 or October 15—the procedures are not explicit as to the last possible date.

Partnerships will also have to give investor partners corrected data with which to amend their 1983 returns.

The result in the great majority of cases will be decreased interest deductions and increased tax due.

Financial institutions using the rule of 78s must also change their method of reporting interest income for tax purposes, except for certain short-term consumer loans that (1) do not run longer than five years, (2) require regular repayments at least annually (with no balloon payment at the end) and (3) provide for the rule of 78s in the loan agreement.

For these short-term consumer loans, change from the rule of 78s by either the lender or the borrower is voluntary. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director-tax practice for Touche Ross & Co.*

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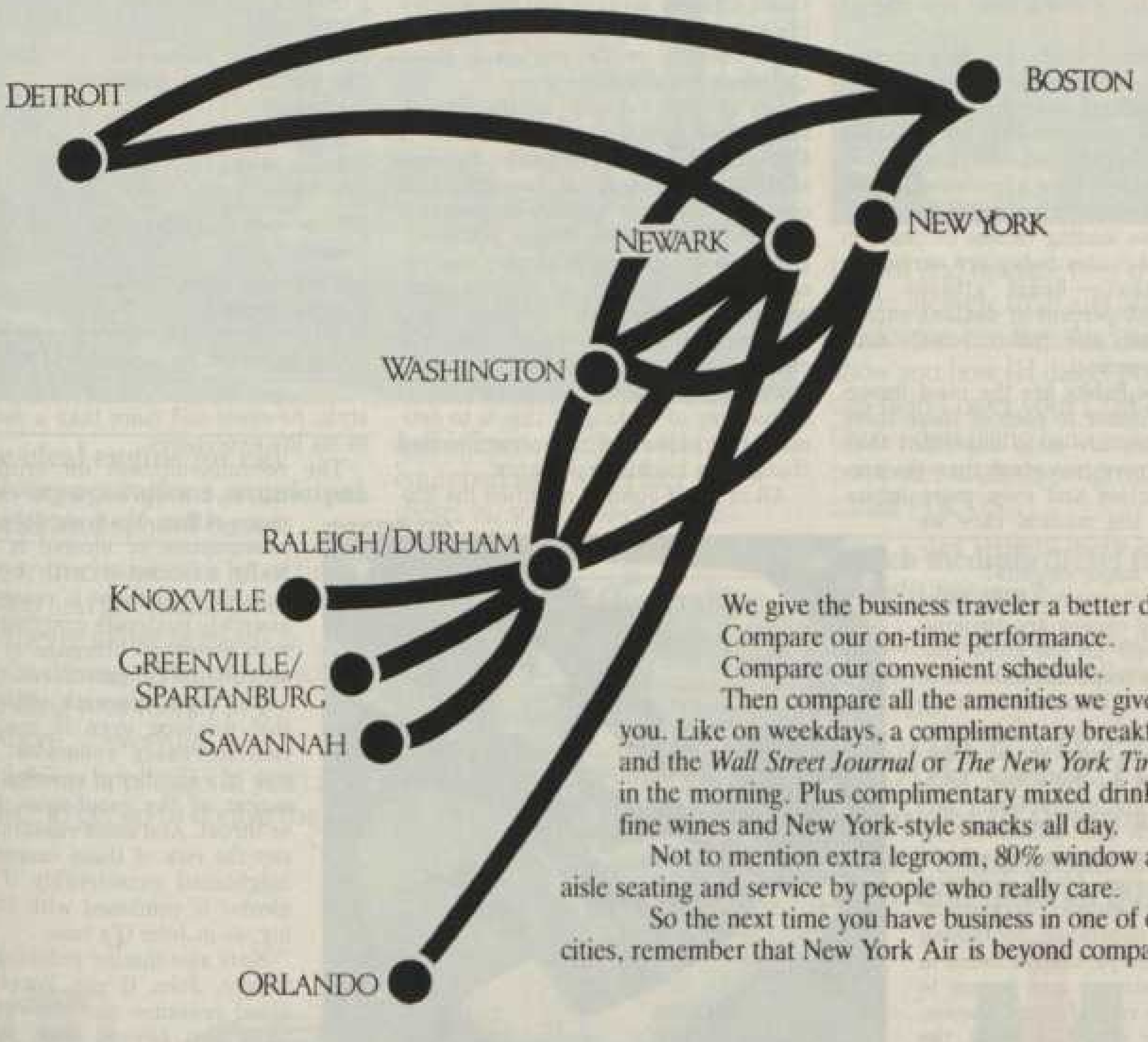

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The Return on Investing in Health

By James E. Bernstein, M.D.

BUY, SELL, hire, invest. Every week the successful business executive makes hundreds of decisions—decisions based on advice or on solid evidence.

Unfortunately, not all executives manage their health with the same deliberation. We should approach our health as we approach our businesses: by making decisions on the basis of sound evidence and a clear ordering of priorities.

The evidence we need to help us manage our lives for better health does exist. Accumulated over the past four decades and corroborated by repeated studies, it points to one conclusion: Lifestyle habits have a profound impact on our risks of getting major diseases.

The three leading causes of death in the United States today are cardiovascular disease—heart attacks and strokes—(50 percent of deaths); cancer (20 percent); and motor vehicle accidents (12 percent).

Lifestyle habits are the most important contributor to each of these three killers. They are more important than heredity, more important than environmental factors and even more important than the medical care we receive. So which lifestyle habits are the major culprits?

For cardiovascular disease, the leading causes are smoking (many people do not know that smoking is responsible for more deaths from heart attack than from cancer), lack of exercise and Type-A behavior (the tendency to be a competitive, high-achieving go-getter). Other factors, which are influenced by diet and exercise, are levels of blood pressure, blood cholesterol and high-density lipoprotein. (HDL, a substance containing both fat and protein, is found in the bloodstream and seems to reduce the risk of heart disease; the higher the HDL level, the better.)

For fatal cancers, the leading lifestyle contributors are smoking, alcohol and, probably, diet.

Finally, for motor vehicle accidents, there are two extremely important lifestyle factors: mixing drinking with driving and not wearing seatbelts.

Some rational questions to ask about this evidence: Will modifying my lifestyle habits really make a difference? Could doing so actually add years to my life expectancy?

For most of us, the answer to those questions is a resounding yes.

Let us take John Q, 42, the Type-A senior vice president of finance for a $500-million-a-year company. He has slightly elevated blood pressure (135 over 80), averages 40 to 50 cigarettes a day and 12 alcoholic drinks per week, gets 3 or 4 hours of moderately intensive exercise weekly, is slightly overweight and never wears his seatbelt.

What difference would lifestyle changes make to his health? Is the investment worthwhile?

One way of looking at this is to estimate the impact of the recommended changes on his life expectancy.

All in all, if John Q modified his lifestyle, he could add more than a decade to his life expectancy.

Current Lifestyle	Recommended Change	Extra Years
Smokes 40-50 cigarettes a day	Quit smoking	6.0
Has pronounced Type-A behavior	Moderate Type-A behavior	2.5
Has 135 over 80 blood pressure	Reduce to 110 over 80	1.1
Takes 12 alcoholic drinks per week	Stop drinking	0.8
Never uses seatbelt	Use seatbelt	0.1
Exercises 3 hours a week	No change	—
Total increased life expectancy		10.5

The recommendation on drinking may come as a surprise, since excessive—rather than moderate—consumption of alcohol is normally associated with health hazards, and there is reason to associate moderate consumption with increased lifespans in certain limited circumstances.

But some research indicates that drinking even in moderation increases somewhat the risk of a number of cancers, like cancer of the esophagus, nose or throat. And some researchers say the risk of these cancers is heightened considerably if the alcohol is combined with smoking, as in John Q's case.

Note also that by reducing his weight, John Q can lower his blood pressure and cholesterol level. But beyond that, losing weight will not add to his life expectancy.

Lifelong habits are not easy to change. It takes commitment and follow-through. But if the return on the investment in lifestyle modification is high enough, the personal resources will be worth committing. □

PHOTO: WAYNE PARTLOW

If you wear seatbelts and never mix drinking with driving, your life expectancy will rise.

JAMES E. BERNSTEIN, M.D., *is president and founder of General Health, Inc., a Washington firm that provides health management services to business.*

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PHOTO: KEN WHITMORE

The People Who Take the Plunge

What you need to be an entrepreneur.

By Sharon Nelton

ENTREPRENEURS are the stars of the 1980s. Their admiring fans? Venture capitalists, lenders, workers grateful for jobs the entrepreneurs create and countless people who are dazzled by entrepreneurs' energy, creativity, courage and zest for what they are doing.

They have the same dream that many of us have—the dream of doing something on our own. The difference is, entrepreneurs actually do it.

Some of them become instant successes, creating the Apple Computers of the world. Others fall flat on their faces time after time, only to pick themselves up again. (Sheldon Adelson, president of Interface Group, the Needham, Mass., firm that is the largest producer of computer conferences in the country, says he has made and lost a million dollars twice in other businesses. Now he is a millionaire for the third time, and he intends to stay that way.)

Some people move from selling lemonade on the corner as kids to peddling T-shirts in college to running multimillion-dollar businesses as adults. They have always been entrepreneurs.

After pursuing corporate careers, others reshape themselves in their 30s and 40s into entrepreneurs, often through a grueling process of acquiring a new view of themselves. They unlearn old attitudes and replace them with new ones; they give up old ways of doing and experiment with new behavior.

Nearly 600,000 people started businesses in the United States last year, and the fervor to be one's own boss shows no sign of abating. Quite the contrary—this has been called the age of the entrepreneurs. Could you be one of them? What does it take?

Five years ago, using $25,000 from the house she sold before she moved in with her new husband, Lorraine Mecca started Micro D, a Fountain Valley, Calif., company that distributes microcomputer hardware and software to 4,000 retailers across the country. Its sales are expected to exceed $120 million this year.

Mecca is the majority stockholder (see page 28) as well as chief executive officer. When Micro D went public last year, her holdings, according to one estimate, were worth $59 million.

But when you ask her whether money is what drives her, she replies:

"No. It's a great scorecard. The bottom line tells you yes, it was a success, or no, it wasn't. But money is not a main motivator."

What pushed her, she says, was the simple desire to be in business for herself: "I had worked for a number of other people and didn't feel that I was always appreciated or got to do many of the things I thought I was capable of doing."

Her attitude would not surprise many of the consultants and management experts who have been watching entrepreneurs to find out what makes them tick.

Entrepreneurs may tell you they are after money or power, because those things are easy for others to understand, says Andrew S. Grove, author of *High Output Management* and president of Intel Corporation in Santa Clara, Calif. But he believes the real force that drives entrepreneurs is the need to prove themselves right.

The critical characteristic of an entrepreneur, says Grove, is the ability to

Lorraine Mecca's microcomputer distribution firm had so much potential that husband Geza Csige gave up his own business to join her.

see something that is not there yet. He explains: "It's like an artist. He can envision a statue or a painting by staring at nothing. In the same sense, a person who creates a business or product does so by looking at a blank canvas." If the individual trusts that vision enough, Grove says, he pushes on to convince himself and the rest of the world that "the mirage or image that he sees is really for real."

Venture capitalist David A. Silver of Santa Fe, N.M., also likens entrepreneurs to artists, saying they have "quite a bit in common, not the least of which is the desire to do some one thing extremely well."

But is money really not important? Charlotte Taylor, a Washington, D.C., management consultant who specializes in business start-ups, says the would-be entrepreneur should be able to say yes to this question: "If I had a choice of earning twice as much working for someone else, would I still rather be my own boss?"

Drawing up profiles of successful entrepreneurs is a popular—though slippery—pastime among people who study them. In his book *The Entrepreneurial Life*, Silver describes the entrepreneur as "someone dissatisfied with his or her career path (though not with his chosen field) who decides to make a mark on the world by developing and selling a product or service that will make life easier for a large number of people."

SILVER, WHO is also a consultant on entrepreneurship to the University of Chicago Graduate School of Business, says entrepreneurs tend to be energetic, single-minded, confident, optimistic and determined. An entrepreneur, he continues, is typically a male aged 27 to 34 whose father died early or was absent from family life and whose mother was very ambitious for him.

The most successful entrepreneurs, Silver found, have been goaded by physical characteristics that set them apart from their fellows in childhood:

They were shorter than average, perhaps, or sidelined by an illness that limited participation in sports and social life, or even suffered from a bad case of acne.

Entrepreneurs, of course, have their own ideas about what it takes. Samuel Salter II, who at 19 has been named 1984 Young Entrepreneur of the Year by the U.S. Small Business Administration, sees entrepreneurs as people who "take more responsibility for the action in their lives" than most other people. "You get the credit, you take the fault," says Salter, president of Continental Financial Corporation, of East Orange, N.J., which brokers more than $1 million a month in loans to small businesses.

PHOTO: T. MICHAEL KEZA

People are exploring ways to change the world, says Robert L. Schwartz of the School for Entrepreneurs.

Lorraine Mecca says that starting and running a business call for a great deal of discipline. "You can't just do it for a little while and say, 'I'm tired.' You have to be able to make yourself keep doing it. It's really an endurance race." The excitement and fun of it keep her going, she says.

Entrepreneurs are often described as vulnerable to divorce because they are so single-minded about their businesses that they neglect spouses and children. Mecca, whose husband, Geza Csige, joined Micro D after she started it, emphasizes that it is advisable to have your personal life in order.

"You do not have time to exert any mental effort in any direction other than your business," she says. "So if you are trying to build an emotional relationship, you can't do it. One or the other has to fail—either your relationship or the business."

With a laugh, she adds: "You have to be happy with either fidelity or celibacy."

If you want to be an entrepreneur but do not fit Silver's or any other profile (including the one that is the basis of the quiz accompanying this article), do not despair. Howard H. Stevenson, a professor of business administration at Harvard Business School, says that the entrepreneurial impulse is found in all types of people. In classes on entrepreneurial management that he teaches, Stevenson tries to dispel any lingering stereotypes. "Eventually," he says, "the students come to understand that entrepreneurship is not confined to 32-year-old males with engineering degrees."

Gustaf Delin, one of the founders of the ForeSight Institute, a Washington-based venture that helps companies develop in-house entrepreneurs, agrees that there is no "right" list of characteristics. But he observes that one important constant is overlooked: "Every entrepreneur is self-selected. Nobody appoints you."

How do people become entrepreneurs? Each story is unique.

Sam Salter never doubted that he would be in business. He says: "Certain kids want to be firemen; some kids want to be cops. I watched TV, and I wanted to be J.R."

He has used visualization techniques not unlike those used by some athletes. In his mind, he explains, he created "the business meetings, the lunches,

PHOTO: T. MICHAEL KEZA

Publisher of a natural foods trade journal, Doug Greene emphasizes the importance of a larger world view.

the house, the cars" that he expected to be part of his life. Visualization is more concrete than daydreams, he says. He firmly believes that "whatever my mind can create, I can become."

THOSE WITH less confidence take still other routes. A determined Pennsylvanian left a corporate job and spent six months in an intensive self-evaluation program to prepare himself for the risks he knew he would take to start the health care consulting business he dreamed of.

He enlisted his wife's support. She was already working, but she had never seen herself as the family breadwinner, and she had to press herself to earn a better income.

To buttress his commitment, he set up an advisory board of 20 persons—some were professionals like accountants and attorneys, and others were just friends.

"I consciously closed off all the pathways for escaping when things got tough," he says. And get tough they did. The car was repossessed. The family was evicted from a rented home. But in its fourth year, the business is really beginning to take off.

For would-be entrepreneurs who need the confidence and business skills that training can provide, these are good times. There are probably more formal and informal education opportunities for entrepreneurs than ever before.

One unconventional approach is offered at the School for Entrepreneurs, run by Robert L. Schwartz in Tarrytown, N.Y. Cornell University has identified Schwartz as the "granddaddy of the conference center concept."

A veteran journalist who had worked for *Time* and *Life*, Schwartz in 1963 bought the 26-acre Mary Duke Biddle estate overlooking the Hudson River and turned it into the Tarrytown House Executive Conference Center, the first such center to be run on a for-profit basis. The facility attracts meetings of executives from corporations like International Business Machines and CBS.

Schwartz spent some time in California in the early 1970s looking at the "human potential" centers. The press, he says, saw in the centers throngs of people "out for a hedonistic experience in the hot tubs," but he saw latent en-

Measuring the Ingredients Of the Successful Entrepreneur

Do you have what it takes to be a successful entrepreneur?

One way to find out is to take this quiz and see how your score stacks up against 1,500 entrepreneurs surveyed by the Center for Entrepreneurial Management. All are now running businesses that they started.

What if you do not score well? "It only means you don't match the profile," cautions Joseph R. Mancuso, CEM president.

Circle the appropriate answer.

1. How were your parents employed?
a. Both were self-employed most of their working lives.
b. Both were self-employed for some part of their working lives.
c. One parent was self-employed for most of his or her working life.
d. One parent was self-employed at some point in his or her working life.
e. Neither parent was ever self-employed.

2. Have you ever been fired from a job?
a. Yes, more than once.
b. Yes, once.
c. No.

3. What is your family background?
a. You were born outside the United States.
b. One or both parents were born outside the United States.
c. At least one grandparent was born outside the United States.
d. Your grandparents, parents and you were born in the United States.

4. Describe your work career.
a. Primarily in small business (under 100 employes).
b. Primarily in medium-sized business (100 to 500 employes).
c. Primarily in big business (over 500 employes).

5. Did you operate any businesses before you were 20?
a. Many.
b. A few.
c. None.

6. What is your age?
a. 21 to 30.
b. 31 to 40.
c. 41 to 50.
d. 51 or over.

7. Where do you stand in your family?
a. First child.
b. Middle.
c. Youngest.
d. Other (foster, adopted).

8. What is your marital status?
a. Married.
b. Divorced.
c. Single.

9. What level of formal education have you reached?
a. Some high school.
b. High school diploma.
c. Bachelor's degree.
d. Master's degree.
e. Doctorate.

10. What is your primary motivation in starting a business?
a. To make money.
b. You don't like working for someone else.
c. To be famous.
d. As an outlet for excess energy.

11. Describe your relationship to the parent who provided most of the family's income.
a. Strained.
b. Comfortable.
c. Competitive.
d. Nonexistent.

12. How would you choose between working hard and working smart?
a. Work hard.
b. Work smart.
c. Both.

13. On whom do you rely for critical management advice?
a. Internal management teams.
b. External management professionals.
c. External financial professionals.
d. No one except yourself.

14. If you were at the racetrack, which would you bet on?
a. The daily double—a chance to make a killing.

PHOTO: BOB MILES

Arizona State University nurtures new business with the help of entrepreneur A. LeRoy Ellison (left), conferring here with Roger Sprava of Interactive Marketing Software, Inc., a Phoenix firm.

trepreneurs, people with creativity and energy who marched to a new drumbeat. Turned off by the notion that entrepreneurs were hustlers and promoters, they shunned the business world. "But in fact," says Schwartz, "they had within them the seeds of a whole new vision that has marketplace meaning."

To help such latent entrepreneurs overcome their reluctance to get into business, Schwartz launched his school at the Tarrytown Center in 1977. Since then it has attracted some 1,000 students, who have spent two weekends exploring whether they can turn themselves into entrepreneurs or expand endeavors they have already started.

"Many of these people are exploring new ways to change the world and themselves," says Schwartz. "It's a time for a new kind of society and a new kind of human, and they're very interested in that sort of thing."

Eighteen people attended the most recent session. Among them were a woman who had tried teaching and the corporate life and found that neither put her creative energies to work; a Canadian who hoped to start a small publishing company; a consultant from Norway who wanted to learn techniques for training entrepreneurs; and an architect who needed help in expanding a successful nonprofit project into a nationwide profitmaking business.

The participants went through four days of psychological games, lectures, group discussions and written exercises. Each prepared a tentative business plan, discussed it in a small group, revised the plan and did a trial run before the whole group. Then the plan was revised again and presented to a real-life venture capitalist brought in to provide practice in making a pitch for funds.

ENTREPRENEURS often feel like misfits, says Schwartz, who frequently refers to them as "the poets and packagers of new ideas." What the course should tell them, he says, is that "you may be an outsider, a special breed of cat, but there's a socially useful, personally useful pattern to that—

b. A 10-to-1 shot.
c. A 3-to-1 shot.
d. The 2-to-1 favorite.

15. Name the one ingredient that you consider both necessary and sufficient for starting a business.
a. Money.
b. Customers.
c. An idea or product.
d. Motivation and hard work.

16. If you were an advanced tennis player and had a chance to play a top pro like Jimmy Connors, what would you do?
a. Turn it down because he could easily beat you.
b. Accept the challenge but not bet any money on it.
c. Bet a week's pay that you would win.
d. Get odds, bet a fortune and try for an upset.

17. With which do you tend to "fall in love" too quickly?
a. New product ideas.
b. New employes.
c. New manufacturing ideas.
d. New financial plans.
e. All of the above.

18. Which of the following personality types is best suited to be your right-hand person?
a. Bright and energetic.
b. Bright and lazy.
c. Dumb and energetic.

19. Why do you accomplish tasks better?
a. You are always on time.
b. You are superorganized.
c. You keep good records.

20. Which do you hate to discuss?
a. Problems involving employes.
b. Signing expense accounts.
c. New management practices.
d. The future of the business.

21. Which would you prefer?
a. Rolling dice with a 1-in-3 chance of winning.
b. Working on a problem with a 1-in-3 chance of solving it in a set time.

22. If you could choose, which of the following competitive professions would you follow?
a. Professional golf.
b. Sales.
c. Personnel counseling.
d. Teaching.

23. Would you rather work with a partner who is a close friend or work with a stranger who is an expert in your field?
a. The close friend.
b. The expert.

24. When do you enjoy being with people?
a. When you have something meaningful to do.
b. When you can do something new and different.
c. Even when you have nothing planned.

25. Do you agree with the following statement?
In business situations that demand action, clarifying who is in charge will help produce results.
a. Agree.
b. Agree with reservations.
c. Disagree.

26. In playing competitive games, what most concerns you?
a. How well you play.
b. Winning or losing.
c. Both.
d. Neither.

Scoring

To determine your entrepreneurial profile, find the score for each of your answers on the following chart. Add them up for your total score.

1.	a=10	b=5	c=5	d=2	e=0
2.	a=10	b=7	c=0		
3.	a=5	b=4	c=3	d=0	
4.	a=10	b=5	c=0		
5.	a=10	b=7	c=0		
6.	a=8	b=10	c=5	d=2	
7.	a=15	b=2	c=0	d=0	
8.	a=10	b=2	c=2		
9.	a=2	b=3	c=10	d=8	e=4
10.	a=0	b=15	c=0	d=0	
11.	a=10	b=5	c=10	d=5	
12.	a=0	b=5	c=10		
13.	a=0	b=10	c=0	d=5	
14.	a=0	b=2	c=10	d=3	
15.	a=0	b=10	c=0	d=0	
16.	a=0	b=10	c=3	d=0	
17.	a=5	b=5	c=5	d=5	e=15
18.	a=2	b=10	c=0		
19.	a=5	b=15	c=5		
20.	a=8	b=10	c=0	d=0	
21.	a=0	b=15			
22.	a=3	b=10	c=0	d=0	
23.	a=0	b=10			
24.	a=3	b=3	c=10		
25.	a=10	b=2	c=0		
26.	a=8	b=10	c=15	d=0	

How does your score stack up? See page 26.

Your Entrepreneurial Profile

Total Score	
235–285	Successful Entrepreneur. Someone who starts multiple businesses successfully.
200–234	Entrepreneur. Starts one business successfully.
185–199	Latent Entrepreneur. Always wanted to start a business.
170–184	Potential Entrepreneur. Has the ability but has not started thinking about starting a business yet.
155–169	Borderline Entrepreneur. No qualifications but still in the running. Would need a lot of training to succeed.
Below 154	Hired Hand.

The average score for the entrepreneurs in the CEM survey is 239. CEM found that entrepreneurs often come from homes where one parent was self-employed for most of his or her working life. Many had been enterprising as youngsters—working a paper route, for example. Nearly 60 percent are the oldest child in the family and more than 75 percent are married. Fifty-six percent said they wanted to start a business primarily because they disliked working for others.

For an analysis of the answers to each question, send your name and address and 40 cents in coin or stamps with your request for "The Entrepreneur's Quiz" to the Center for Entrepreneurial Management, 83 Spring Street, New York, N.Y. 10012.

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the world needs nuts like you." Although he does not keep figures on how many participants start businesses, Schwartz says he knows, from visiting with hundreds who have come back for reunions, that the course is "a life-changing experience, mostly in the sense that they see themselves differently and now believe they can do anything they want to do."

One alumnus who affirms that Tarrytown changed his life, although he did not need the school to turn him into an entrepreneur, is Doug Greene. When he first heard about the school, he was already a successful entrepreneur several times over. In the late 1970s, Greene sold a thriving magazine advertising sales business in Malibu, Calif., to follow a hunch that the natural foods industry needed an upbeat, up-to-date trade magazine.

Today his company, New Hope Communications, in New Hope, Pa., which publishes the *Natural Foods Merchandiser*, has $2 million in annual sales. It sponsors a natural foods trade show that has grown to 550 exhibitors and 10,000 attendees in four years, and it recently opened a store, Carrots & Company, that serves as a laboratory for the firm.

Business people often tend to focus too narrowly, says Greene. "Bob Schwartz taught me the importance of understanding the world from a larger point of view, and that always translates into understanding your own business and yourself better."

UNIVERSITIES have taken up the banner, too. According to Karl H. Vesper of the University of Washington, 258 business and engineering schools now offer courses in starting a business—up 61 percent from 1980.

A. LeRoy Ellison, "entrepreneur in residence" at Arizona State University since January, says he is responsible not only for teaching but also for getting entrepreneurial content into the curriculum of ASU's business school and identifying ways the university can help nurture new businesses in the community. ASU now sponsors the New Venture Development Council, which provides an opportunity for heads of young companies to get to know and learn from one another.

Consultant Charlotte Taylor has developed a program called NET-PRO (New Enterprise Training for Profit) that is being used by banks, chambers of commerce and other institutions to help new entrepreneurs. One thing the program does is make them aware of business skills they must learn if they are going to succeed.

Still, there comes the moment of truth. Says Doug Greene: "You can read all the books about swimming, you can see films about it, you can sit on the bank and watch, but until you dive in that water, you won't know how to swim.

"That's what entrepreneurs do. They dive into the water, and they learn how to swim." □

Starting a Business: Where To Get Help

Do you want help in starting a business or deciding whether to become an entrepreneur? Here are some useful resources:

• School for Entrepreneurs, Tarrytown Conference Center, E. Sunnyside Lane, Tarrytown, N.Y. 10591, (914) 591-8300. Two-weekend course ($750). Next dates: July 13-15 and 20-22.

• Center for Entrepreneurial Management, 83 Spring Street, New York, N.Y. 10012, (212) 925-7304. Offers business planning seminars (one day, $125, and three days, $495) in eight cities.

• Small Business Development Centers, cosponsored by the U.S. Small Business Administration and universities in 31 states. Aimed at stimulating entrepreneurship. For the location nearest you, call the national SBDC office at (202) 653-6768.

• Venture Concepts, 1901 L Street, N.W., Washington, D.C. 20036, (202) 331-9265. Its NET-PRO Business Start-Up Kit (for New Enterprise Training for Profit) is a $75 package of five audio tapes, a 148-page workbook and an entrepreneurial self-test of 150 questions. Helps you determine whether you have what it takes to succeed, whether your business idea will work, and what skills you must learn to start a business.

• Women's Business Ownership Conferences, sponsored by SBA and the U.S. Department of Commerce. Meetings in 12 cities are scheduled from now to the end of the year. National coordinator: Susan Howard, SBA, 1441 L Street, N.W., Washington, D.C. 20416, (202) 653-2121.

• American Woman's Economic Development Corporation, The Lincoln Building, 60 E. 42nd Street, New York, N.Y. 10165, (212) 692-9100. Telephone counseling available across the country or face-to-face counseling in New York, both at $25 per session. Extended courses in New York on how to start, manage or build a business.

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Lorraine Mecca's Story: She Saw An Opportunity and Took It

WHEN A COLLEGE class project meant six hours of writing weekly at a typewriter for Lorraine Mecca, her husband-to-be, Geza Csige, suggested that she use his word processor.

"I said, 'Your what?' " recalls Mecca. But she tried the word processor that Csige, a computer hobbyist, had built at home from a kit. "I fell in love with it and with how easy it made my job," says Mecca, 35. "It reduced six hours of writing to two hours, and my writing was much better. It made writing a joy instead of drudgery."

She had already known she wanted to go into business for herself. Now she knew she wanted to get into the computer field.

"If I—a very nontechnical person—could find my work made so much easier by computers," says Mecca, "then the rest of the world was going to be helped just as much."

After earning a bachelor's degree in English education from Arizona State University in 1972, Mecca taught junior high English in Litchfield Park, Ariz., near Phoenix, for two years. California beckoned, and she met Geza Chiga (pronounced Gayza Chigga) when both worked for a Los Angeles distribution firm. He was production manager, and she worked her way up from clerk to production coordinator.

She left to take business courses at El Camino College; the Hungarian-born Csige left to start two computer stores with a friend.

After they were married in July, 1978, Csige would bring his business problems home with him, Mecca says. The problems often centered on the difficulty of getting supplies of certain products to sell—particularly "third party" products like printers, modems or software that other manufacturers made to go with the popular Apple computers.

Mecca began going with her husband to monthly meetings of the Southern California Computer Dealers Association and found that other retailers complained of the same problem.

"I came to know all of the dealers in the area," she recalls. "They came to know me. I knew all of their problems, all of the products they were having difficulty getting or selling. So I already had a good network of dealers and associations going before I started the company."

With her experience in distribution, Mecca says, she knew there was an area of the computer industry where

she could "just go in and clean up." Micro D, the distribution company she started at home with the help of a cousin (since retired) and $25,000 from a house she sold before she married Csige, concentrated on wholesaling accessories that are compatible with Apple computers. More recently, it began specializing in IBM computer-compatible accessories, too.

Micro D started shipping in September, 1979. After only a month, Csige could see that the firm had more potential than his stores. So he sold out to his partner and joined his wife.

During its first full year of business, Micro D chalked up $3.5 million in revenues. Her initial reading of the company's potential market was right on target. Analysts expect its sales to be $120 million to $140 million this fiscal year. It has expanded from its Fountain Valley, Calif., headquarters to three additional locations: Dallas, Chicago and Columbia, Md.

The company went public last year. Mecca is vice chairman and chief executive officer as well as majority stockholder. Csige, 37, is chairman but owns no shares. Asked why, Mecca answers, "It was my company."

SHE HANDLES day-to-day administration and what she calls the interface with the financial community and the public. Csige is responsible for the technical side of the business and for strategic planning.

Mecca, who says that running a multimillion-dollar company is easier than teaching, counts herself lucky that she had a spouse to pay the bills until Micro D became profitable.

The greatest difficulty Mecca had in becoming an entrepreneur, she says, was realizing that she could not be nice to everybody. Since distributors are poised between manufacturers and retailers, she explains, "there were times when I had to make a choice between who was going to make a profit on the sale—me or somebody else. And it was hard to decide that it had to be me. I was used to sharing!"

Asked if female entrepreneurs need any qualities that are different from those that male entrepreneurs need, she points out that the computer business is primarily a male field.

"You have to be aware almost all of the time that if you are a woman in business, you can't develop relationships that are not on a business level," she says. "And you have to be very careful not to compromise a negotiation by giving anyone a false signal. I don't think many men have to worry about that."

Growth is something that many entrepreneurs cannot handle successfully; they are often very good at starting businesses but not at running them. Mecca is determined not to let the problems of growth do her in.

"We realized a very long time ago that experienced managers were necessary—and that we had to become managers," she says. She and Csige not only hired the best professionals they could find for their top management team, they also brought in an outsider, Linwood A. "Chip" Lacy, to run the company for a year while they physically removed themselves to set up their Maryland and Texas branches. Bringing mass merchandising experience to Micro D, Lacy had been president of O.G. Wilson in Dallas, the catalog division of Zale Corporation; he is now senior vice president of merchandising for Best Products Company.

Mecca and Csige were in constant communication with Lacy, and because the company's computer system was on-line, they could always monitor what was happening. "No matter where we were, we knew just exactly what was being shipped and what was being paid for," Mecca says.

She says she and Csige learned a lot from Lacy, whose year was up in January, 1983. Mecca adds: "We had the benefit of watching an experienced manager work. We have been very fortunate that we did not just try to do it all ourselves." □

—Sharon Nelton

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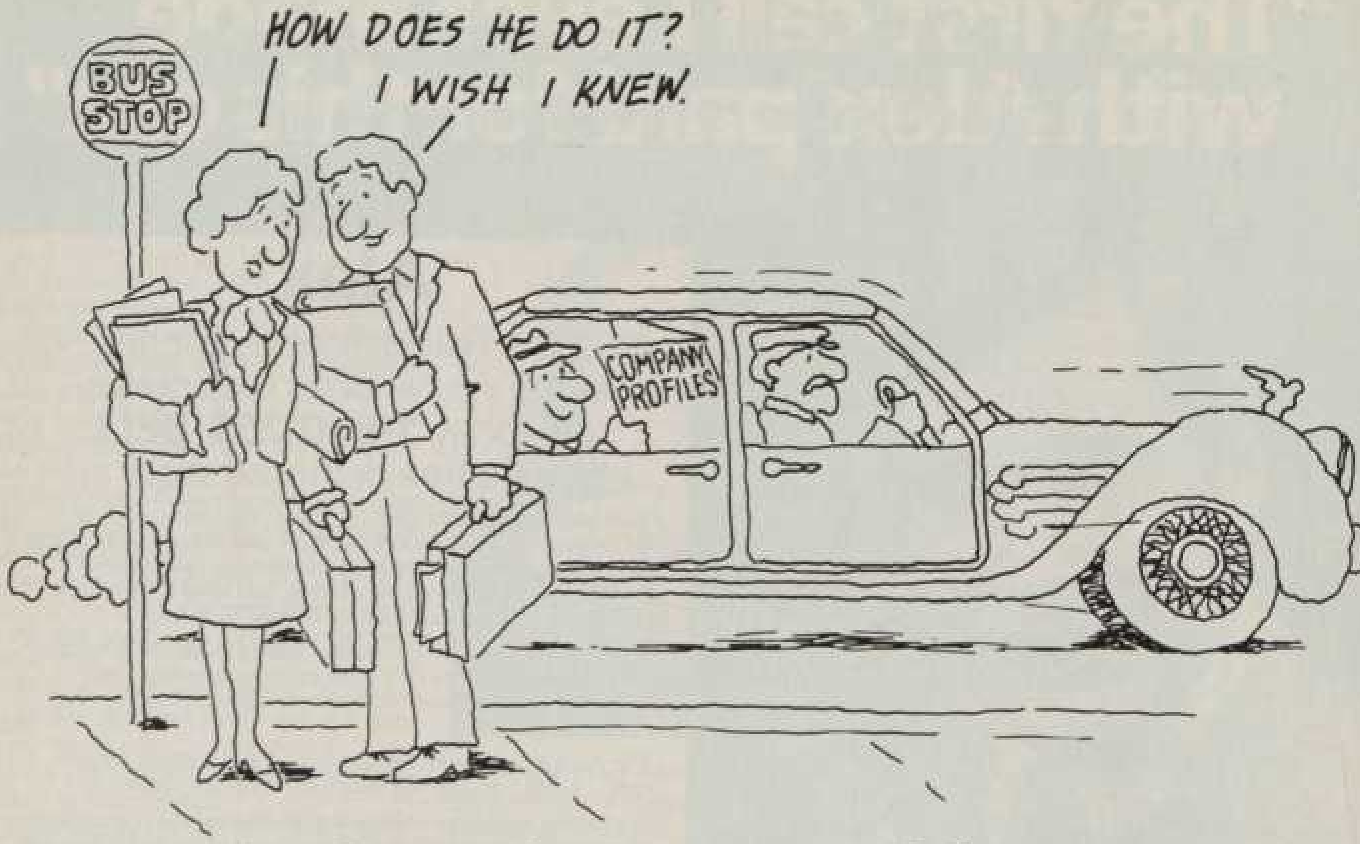

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WASH/E/2

How To Read an Annual Report

By Ray Brady

EVERY YEAR, corporate annual reports roll off the presses by the hundreds of thousands. Issued by companies large and small, many of the reports are replete with gorgeous four-color illustrations, fancy graphs in equally bright colors and all manner of footnotes.

If you are looking for information about the outlook for your investments—or for a place to invest your money—just how much will the annual report tell you and, equally important, how valuable will that information be?

For many years, Lewis Gilbert has been crusading to obtain more information from management for stockholders—an activity that has made him a familiar figure at corporate annual meetings. (He has attended literally hundreds and, as a small stockholder, submitted numerous proposals for votes.) "A lot of companies," he says now, "have come a long way in terms of the amount of information—including statistics—that they give to their stockholders in their annual reports."

A top money manager agrees with Gilbert. "For the knowledgeable person, much is told in the annual report—especially if you know something about the company and its industry," he says. But he adds: "The problem is, the average person can't comprehend much of what is reported. Even a professional can miss something important in today's reports, because the amount being disclosed is so enormous."

Volumes could be written about the art of reading an annual report, and this column cannot say everything there is to say. But here are some guidelines.

Where do you start looking for information about the company? I checked a random sample of security analysts, and I have to admit that, as a somewhat skeptical business reporter, I was surprised by their answer: You start reading an annual report in the obvious place—the chief executive officer's letter to the stockholders. The professionals say corporate management often is startlingly honest about its prospects for the upcoming year.

Ted O'glove, who publishes the *Quality of Earnings Report* (which goes primarily to banks and other big, institutional investors), adds a caveat: Read that message in the past three or four annual reports.

"That way," says O'glove, "you check out exactly how good a management's predictions are. And you can assess the integrity of management. In other words, did management, in the past, tell it like it was? Or is it the type of management that starts to believe its own hype?

PHOTO: T. MICHAEL KEZA

One analyst praises IBM, GE, Grace.

"Several years' messages will give you the answer."

If the company is in several lines of business, check out each line, to make sure those big profits did not come from just one. And, of course, pay attention to how much each line racks up in profits, not sales.

ALONG WITH THAT, watch for these items that may have swelled the company's profits but do not necessarily reflect credit on its regular business operations:

• A company's tax rate. This may have changed markedly during the year, with the result that an increase in earnings really came from a drop in taxes.

• Nonrecurring gains. This could be the plant that was sold off, say, or some other factor that the company cannot count on for income in upcoming years. Wall Street was agog last year, for example, when one financial company reported earnings of around $1 a share. That seemed high to many analysts, and a close reading of the company's financial statement showed the reason why: Most of the profits came from the sale of securities and other nonrecurring activities. Real earnings, if you delved beneath the surface, came to 9 cents a share.

Veteran analysts also say that a company's expenditure on research and development can give a clue to its performance. Often, companies will attempt to "manage" their earnings—that is, improve them—by cutting back on R&D.

A look at the company's debt can be helpful: If the figure shows, say, $500 million in long-term debt, check out the footnotes for when that debt is payable. The deadline may be very close, and a company may float stock to pay off some of the debt. If so, those extra shares could send per-share earnings down. "The more footnotes you see," says Lewis Gilbert, "the more closely you want to read them."

The effect of inflation on a company's profits now must be reported by corporations with more than $1 billion in assets, and that also can be valuable in determining how well a company is doing.

"Even a 1 percent change in the cost of products for a company doing $1 billion a year in business," says O'glove, "can have a major impact on earnings. Just eyeball it: The company's sales rose 15 percent, but the cost of its raw materials went up far less. You know where a lot of that better performance came from."

The investor who really wants to get to the bottom of things may want to consult two other sources.

Within 90 days of the end of its business year, a company must file a 10-K with the Securities and Exchange Commission. This can give you more information on a company's advertising, its research and other factors in corporate health.

And 10-Qs summarizing operations must be filed with the SEC within 45 days of the end of the first, second and third quarters. If a company has stumbled, the 10-Q will tell you why well before the annual report comes out.

Stockholders can ask the company to put them on the mailing list for both reports.

In the final analysis, however, the stockholder's No. 1 tool is still the annual report. Ted O'glove, who reads hundreds every year, says that among the best he has seen are the reports of General Electric, International Business Machines and W.R. Grace.

The reason: "They follow very conservative accounting principles," says O'glove, "and in my experience, if a company does not cut corners in its accounting, there's a very good chance it doesn't cut corners in its operations. You know you've got your money with a high-quality management." □

RAY BRADY *is the business correspondent for CBS News.*

PHOTO: JIM PICKERELL—BLACK STAR

PHOTO: THEODORE ANDERSON—UNIPHOTO

Can the value of the work done by a power lineman (above) and a nurse (right) be compared? Proponents of change say it can and should be.

Measuring The Value of Work

Billions are at stake as the push for "comparable worth" spreads.

By Harry Bacas

DO A NURSE and an electrician perform work of equal value to society? How about a secretary and a truck driver?

Such questions, which once might have been subjects for abstract philosophical discussion, are being considered more seriously and more often by American business these days.

They figure in the debate over the concept of comparable worth, which holds that workers who make equal contributions to society should be paid the same, even though the nature of their jobs differs. If universally applied, comparable worth could tremendously increase payroll costs.

The concept is not new—it was advanced in the late 1970s and early 1980s.

But it gained sudden prominence last December, when a federal judge cited it in issuing a judgment of nearly $1 billion against the State of Washington. Judge Jack Tanner ordered pay raised 32 percent, retroactive to Sept. 16, 1979, for 15,500 state jobs held predominantly by women.

The judge ruled that the state had engaged in sex discrimination in violation of the 1964 Civil Rights Act by paying less for those jobs than for comparable jobs held predominantly by men.

He cited an evaluation, ordered by the state, that assigned points to each state job. Those with the same number of points were deemed to be of comparable worth.

Existing law requires equal pay for equal work, but some women's groups say that, despite this, women's wages average 60 percent less than men's. Employment analysts note that women have, historically, been concentrated in lower-paying jobs and, on average, have less seniority—having spent only half as many years in paid employment as men.

The feminist movement hailed Judge Tanner's decision as a major boost for comparable worth, which feminists now prefer to call "pay equity." Opponents say the decision, which is being appealed, was too narrow to serve as a legal precedent. The U.S. Supreme Court will probably have the final word.

MEANWHILE, the American Federation of State, County and Municipal Employees, which brought the Washington suit, is pursuing comparable worth adjustments in many contract negotiations with public employers.

At least 18 states have job evaluations under way. A number have enacted comparable worth legislation affecting public employes.

Comparable worth bills have been introduced in both houses of Congress. Rep. Mary Rose Oakar (D-Ohio), head of a Post Office and Civil Service subcommittee, held hearings in April on two bills she has introduced. One would require comparable worth studies and adjustments of pay for federal employes. The other would push the Justice and Labor Departments and the Equal Employment Opportunity Commission to take more action under existing antidiscrimination laws.

Critics say comparable worth activity poses both theoretical and practical problems. Peter Germanis, a former Heritage Foundation analyst who recently joined the White House office of policy development, says a law requiring all employers to raise wages on the basis of comparable worth would add $320 billion annually to the cost of doing business in the United States.

Germanis also warns that if some government board, rather than the

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open market, determined pay, "women might simply find their employment opportunities vanishing rapidly, as employers replaced them with men and machines."

He says that "if women prefer nursing to tree trimming, resulting in an oversupply of nurses relative to tree trimmers and a relatively low wage, the result may not be to the liking of nurses, but that does not mean employers are responsible and should be penalized for the result."

Germanis suggests that a better way to make wages fairer without more government regulation might be to change tax laws so that the secondary worker in a family—usually a woman—would not face such high marginal rates on earnings.

John A. Turney, president of the American Compensation Association, advises business executives that for now, there is no legal prohibition against an employer's "paying on the basis of the market, even if it results in lower rates of pay for jobs occupied predominantly by women."

But he cautions: "If you are considering making an internal job evaluation study, be prepared to rectify any illegal underevaluations that may come to light. Once the study has been made, it may be used against you to strengthen claims of discrimination."

Says Mark de Bernardo, a labor law expert for the U.S. Chamber of Commerce: "The question business people, both employers and employes, should be asking in their minds is, if this concept ever takes hold and there is a federal law mandating pay, who is going to make these determinations of worth, who will say how much your job is worth?"

Phyllis Schlafly represents the Eagle Forum Education and Legal Defense Fund, which held a two-day national conference on comparable worth last fall. She calls the movement "a direct frontal attack on the free market system."

SCHLAFLY SAYS that proponents have concentrated their activities for the time being on public employment "because politicians are the easiest to scare." But, she contends, the private sector will be the next target.

"The bottom line is federal wage control," she warns.

Schlafly, who has stumped the country testifying against comparable worth before legislative bodies, said at a recent news conference at the U.S. Chamber of Commerce that comparable worth "has been deceptively packaged as a women's rights issue."

She said the principle of equal pay for equal work has been the law for 20 years and is no longer a controversial issue. Pay equity, she said, also "is something everybody is for," although the meaning is unclear.

But comparable worth, Schlafly said, really means equal pay for unequal work, since it depends on evaluations of job worth that are intrinsically subjective.

In the Washington State case, for example, the study assigned points to various white-collar and blue-collar jobs so that they could be compared and ranked. Points were based on education and skills required, responsibility, mental demands and working conditions. Only 10 percent of the points were based on working conditions, even though many sociologists say working conditions are far more important than that in determining who goes into which jobs.

Phyllis Schlafly calls the comparable worth movement "a frontal attack on the free market system."

One attorney, Arthur F. Rosenfeld of Hansell & Post in Washington, says the Washington State case "has been elevated to a status it doesn't deserve." He says the case involved "no proof that wage disparities in themselves indicate wage discrimination."

According to Rosenfeld, Judge Tanner held only that the state had failed to act on its own job evaluation study, which showed certain lower-paid jobs held mainly by women were "comparable" to certain higher-paid jobs held mainly by men.

Rosenfeld adds that the Supreme Court, in a 1981 decision dealing with the pay of prison guards and prison matrons, refused to endorse the comparable worth concept. He says that Congress also, in drawing up the 1963 Equal Pay Act and the 1964 Civil Rights Act, rejected the comparable worth concept as unworkable.

Another Washington attorney, L. Lorence Kessler of McGuiness & Williams, says Congress concluded, in writing the Equal Pay Act, that "courts should not substitute their own values" for the values employers place on jobs.

FOR SOUND BUSINESS reasons, Kessler says, an employer may decide that he should pay above the market rate for certain jobs; he may do so because he wants to attract and keep the best people available. He may also decide to pay below the market rate for other jobs because he considers cost savings more important than turnover.

Lawyers for public employe unions say, however, that they can win wage discrimination cases, as they did in Washington State, without any changes in federal law. They will continue to rely on job evaluation studies to convince courts that governments are discriminating against some employes because of their sex.

The unions are lobbying in state legislatures for more laws requiring that job evaluation studies of public employes be conducted.

Lane Kirkland, president of the AFL-CIO, says that comparable worth will be a top priority for the labor group in the next few years.

"The real game plan of the comparable worth proponents," says Schlafly, "is litigation and state legislation. After that they'll put pressure on private employers."

Schlafly, echoing Germanis, thinks the plan may misfire for women workers: "The unions have taken a short-sighted decision that they want more dues-paying members and the way to get women members is to buy the whole feminist movement agenda.

"But if wholesale wage raises are the result, will employers respond by hiring fewer women? Or by contracting out the work, perhaps to overseas firms. What good will that do for women?"

Kessler says he does not think private companies' existing job evaluations will be subject to comparable worth suits. But, he says, employers should be wary of asking professional evaluators to do studies that may be based on comparable worth rather than on market values and the employer's overall needs. He warns:

"Ordering such a study means you are just buying a lawsuit." □

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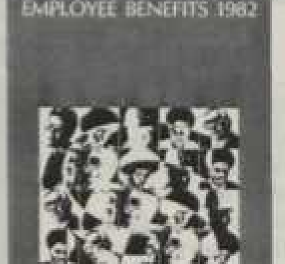

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Can Your Employes Read This?

Millions of adult Americans cannot; they are illiterate. Here's how business is helping.

By Mary-Margaret Wantuck

IMAGINE AN auto mechanic who cannot read a repair manual. A nuclear power station technician who can read, but not well enough to understand safety precautions. A machinist who cannot read his equipment's operating instructions. An insurance employe who pays a policyholder $2,200 on a $100 dental claim instead of the $22 authorized.

They are out there—in frightening numbers. The U.S. Department of Education estimates that more than 23 million adults in this country—both employed and unemployed—are functional illiterates. They cannot read, write or solve problems at a level that enables them to cope with such simple tasks as completing a job application or passing a written driver's test without subterfuge. For them, the normal demands of daily existence often become nightmares of frustration.

Add to this a "shadow" group that is being viewed with increasing concern—the estimated 47 million adults who are borderline literates, able to function but not proficiently—and the issue of illiteracy becomes critically important.

Each year, approximately 2.3 million people over age 16 join the nation's pool of illiterates. They include almost 1 million high school dropouts, around 150,000 educational pushouts—high school graduates who are nonetheless illiterate—and more than 1 million immigrants who cannot read or write in their native languages or English.

The price that functional illiteracy exacts from these people and society is staggering. It is estimated that 15 million adults holding jobs today are functional illiterates. For employers, who are frequently unaware of a worker's deficiency because it is cleverly concealed, this can mean enormous dollar losses due to incorrectly filled orders, shipments sent to wrong destinations, spoiled products, low productivity and equipment breakdowns caused by workers unable to read operating instructions.

Unemployed people constitute a large part of the illiterate population. Labor Department analysts estimate that between 50 and 75 percent of the 8 million unemployed in 1982 lacked the "basic skills of communication, reading, comprehending and computing that would enable employers to train them for the jobs that will open up in the next few years."

One estimate pegs annual welfare and unemployment compensation costs for functional illiterates at $6 billion—33 percent of mothers who get aid for families with dependent children are believed to be functionally illiterate. A study indicates that 40 percent of adults with yearly incomes under $5,000 are functional illiterates.

Thanks to Pratt & Whitney, Celia Bagdonis got a high school diploma and enrolled in college.

WITH ILLITERACY generally associated with developing nations, what has caused the alarming level of adult illiteracy in this advanced country? Its roots lie in childhood, experts say. They cite an overdependence on television; the chronic substandard reading and writing habits of millions of young people in poor neighborhoods; and the failure of many families and schools to cope with the problem.

Children of illiterate adults have been identified as the single largest group of high-risk candidates for future failure. Illiteracy can also stem from a learning disability like dyslexia or a physical cause like hearing impairment or poor vision. Or perhaps the child was a slow learner and did not have a teacher who took the time to work more closely with him.

"The biggest myth out there right now is that these people are dumb," comments Bette Fenton, director of community relations and public affairs for B. Dalton Bookseller, the nation's largest retailer of books. "They're most certainly not, and this image must be eradicated." Functional illiterates live in fear of being discovered, she says, and invent a variety of excuses for not having to read or write—not having one's glasses, say, or being unable to decipher someone's handwriting or having a sprained wrist and so being unable to fill out an insurance form.

What is to be done and who is to spearhead the effort? "The problems

PHOTO: JACK SPRATT—PICTURE GROUP

Pratt & Whitney's literacy program opened new vistas for Cephus Nolan (left). Once an unskilled laborer with a fifth-grade education, he is now a foreman.

PHOTO: T. MICHAEL KEZA

Students at fourth grade reading levels can advance with the computer-assisted literacy curriculum used in Central Piedmont College's Project ABLE program.

associated with functional illiteracy assault all segments of life—the armed services, government, business and industry, family and community," Education Secretary Terrel Bell has declared. "There are no boundaries; functional illiteracy is prevalent in the large cities, small towns and in the countryside."

Last fall, President Reagan launched a nationwide adult literacy initiative. It is being coordinated by the Education Department, various advisory groups and public adult education administrators at the state and local levels. "If we're to renew our economy, protect our freedom, we must sharpen the skills of every American mind and enlarge the potential of every individual American life," the President has said.

Diane Vines, director of the adult literacy initiative, says business can contribute significantly to the literacy effort. A company can:

- Donate such resources as volunteer employe tutors, funds and supplies.
- Establish a basic skills component in in-house training programs or contract for one with local adult basic education programs.
- Forge partnerships with adult literacy programs in their communities.
- Contribute to college work-study programs for student literacy tutors by paying 20 percent of students' salaries or offering to train these students free of charge, as some local chambers of commerce are doing.
- Join local and state literacy councils.

Sherman Swenson, chairman of B. Dalton Bookseller, agrees wholeheartedly that business has a major stake in the war against illiteracy.

"In dollar terms alone," he says, "adult illiteracy is costing the country an estimated $225 billion annually in lost industrial productivity, unrealized tax revenues, welfare, prisons, crime and related social ills. Business just cannot afford to stand by any longer while illiteracy burgeons."

Swenson has heeded his own words. The company is granting $3 million, plus other types of aid, to literacy programs in communities where there are B. Dalton bookstores.

VOLUNTARISM is central to the success of the B. Dalton campaign. By 1986, the firm hopes to see 50,000 volunteer tutors recruited, trained and placed in literacy programs to meet the needs of 100,000 illiterate adults. At least 10 percent of B. Dalton's 8,500 employes will work in the program, all voluntarily.

Like Swenson, Harold W. McGraw, Jr., chairman of McGraw-Hill, Inc., sees functional illiteracy as "a challenge to all Americans and a special challenge to the business community." His response has been to establish the Business Council for Effective Literacy, which he initially funded with a grant of $1 million. The council's aim is to foster greater corporate awareness and participation in literacy activities nationwide.

Corporations also have been dealing directly with the literacy problems of their employes.

When the Pratt & Whitney Group of United Technologies instituted an in-house general education program six years ago, so that employes could get high school equivalency diplomas, it discovered that some needed more than just a cursory brushup in math, English and history—they were functionally illiterate. So the company began a one-on-one tutorial program, using a format devised by the Literacy Volunteers of America. Employe volunteers do the instructing. More than 125 employes have learned to read.

Pratt & Whitney executive Arthur Colby, who oversees the program, points with pride to one employe, Cephus Nolan, originally from Alabama, whose parents told him to quit school in the fifth grade because he was destined to work in the fields and did not need any more education.

"When he came to us," Colby says, "we hired him as an unskilled materials packer. He went through our tutorial program, rose to materials foreman and has taken several college prep courses.

"Another employe, a Hispanic who was illiterate in both Spanish and English, also went through the literacy program and then enrolled in one of the company's three-year apprentice craftsman programs. Now his mission is to get an engineering degree."

Celia Bagdonis, 61, is one Pratt &

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Whitney employe who has gotten help under the company's training program—and has given it. When she returned to the firm in 1970 after an 18-year stint as a full-time housewife and mother, she started as a keypunch operator. Once she had received her high school equivalency diploma, she advanced to computer operator and is now working toward her associate degree in business administration. Her extracurricular activities include tutoring a 32-year-old custodian "who was not even reading at the first-grade level when we started last July, but who has since climbed to the third grade. It has enriched my life. What touched me most about him is that he gave $25 to the local library association even before he started the literacy program."

AT POLAROID CORPORATION, employes are taught reading, writing, math and science skills, from the most basic level through the postsecondary.

"Polaroid does not conduct a job training program," explains Linda Stoker, training manager. "We tie our basic skills curriculum to the jobs people do, focusing priority on what skills criteria they will need to improve their job performance or prepare for job growth. The company also has a program where oral work is emphasized, for people whose principal language is not English."

Courses can run anywhere from 6 to 30 weeks, for one to four hours a week. The basic skills staff is made up of part-time employes from outside Polaroid. For more advanced course work like trigonometry and calculus, Stoker will call on Polaroid employes—engineers or financial analysts—who are savvy in math.

One of the success stories, says Stoker, is a middle-aged woman, a former head assembly operator, who had never learned to read well. She was cajoled by a friend into joining the company's reading skills class and then was prompted by her instructor to try her hand at math. She is now a statistical clerk.

Since 1978, Planter's Peanuts in Suffolk, Va.—with the aid of the local school system—has offered employes an education program if their reading skills fall below the eighth-grade level. Employes proceed at their own rate; all receive individualized instruction in reading, math, English grammar and cursive writing. Students must attend on their own time—either before or after work, twice a week for at least four hours of classroom instruction. If they meet the four-hour requirement, Planter's will pay them for two of those four hours.

"Our youngest student is 30, and the oldest is a 67-year-old woman who retired last year," says Sue Jones, the company's program director. "She is probably the most eager student. She doesn't get paid for coming, but that doesn't deter her. We also have students who are periodically laid off and not compensated during that time but come anyway. We always have a waiting list."

Computer companies are developing software for computer-assisted literacy programs. An example is the state-funded Project ABLE, run by Central Piedmont College in Charlotte, N.C., which uses the PLATO software developed by Control Data Corporation for a literacy curriculum from grades 4 through 8.

"It's the only complete program for adults in software," notes Vicki Cunningham, a full-time teacher for the project, which is housed in a shopping mall—the better to attract people. "Some software programs just have the drill and practice but don't teach anything." With PLATO, the computer actually teaches the lesson.

The tutorial is followed by drill and practice and then by a workbook session if necessary, ending with a test. A student with a reading level below fourth grade works with one of the 80 volunteer tutors on hand. Some of the tutors are retired teachers, but many—including business people—have no background in education. Since the literacy center opened last July, 419 students have taken advantage of PLATO reading and math.

ONE OF THE program's rising stars is a man who runs his own commercial cleaning business. Raised on a farm with 10 brothers and sisters, he did not even go through the fourth grade. He can now read at a much higher grade level, and he is planning to start math—specifically to help him in his business.

Says Cunningham: "When a customer calls for an estimate now, he cannot give a price over the phone because he doesn't know enough math to figure a price based on the square feet to be cleaned. To give a price, he has to actually go to the place and look at the rooms."

Some entrepreneurs are founding their own literacy centers and running them as businesses. Berry Fowler, an ex-schoolteacher, formed the Sylvan Learning Corporation in Bellevue, Wash., in 1978. Now it is a national network of franchised learning centers, combating adult illiteracy as well as the lack of basic reading and math skills in schoolchildren. Each individual's learning needs are diagnosed, and a specialized teaching program is prescribed. The corporation contends that its centers can raise a student's grade level in math and reading skills an average of one year with just 36 hours of instruction.

Two companies, Louis Sherry Ice Cream and Famous Amos Chocolate Chip Cookies, have teamed up to create a new chocolate chip cookie ice cream, and for each pint of ice cream sold nationwide, 1.5 cents will be donated to the Literacy Volunteers of America. In addition, Famous Amos founder Wally Amos, who has written a book on literacy, is donating 5 percent of the book's royalties to LVA.

WHEN ADULT illiterates learn how to read, their joy is contagious. B. Dalton's Fenton tells of a student she tutored:

"She was a 36-year-old high school graduate who had been a mail carrier for 14 years in a small Midwestern city. She got by because she delivered the mail in her own neighborhood, where she had grown up, and knew everyone who lived there and kept tabs on anyone moving in or out. She had learned to match up cursive writing with the names and addresses of people on her route. But when the decision was made to merge several ZIP codes, her route changed, and she was unmasked.

"At work, she went to great lengths to avoid sorting the mail, volunteering for jobs no one else wanted to do if they would only sort for her. When her job was threatened, she came forward and asked for help.

"A quick learner, she whizzed through the reading program and on to grammar, punctuation and letter writing. Eventually, she graduated to getting her own checking account and shopping in a department store on her own."

Says Fenton: "For me, it was the same elation I felt when giving birth to my children. This woman really had a new life—a new beginning."

Being able to read can help illiterates cope with the unexpected. Take the case of a machinist with a wood products manufacturing plant in Laconia, N.H.

Once, during a bad snowstorm on the trip home to Concord, N.H., from Boston, his car broke down. While he repaired it, a family from a nearby town took his wife and children to their home to keep warm. When the repair was completed, he had no idea how to reach his family because he could not read the townspeople's name in the telephone directory. He had to ask the police to help him find the address.

Subsequently, the machinist learned how to read in a tutorial program sponsored by a local adult basic education program.

Says Fenton: "Illiterate parents breed illiterate children. We need to teach children and adults the fluency, the rhythm, the beauty of our language." □

To order reprints of this article, see page 81.

Next Month in **Nation's Business**

How We're Changing

Population and demographic trends in America will have a major impact on business operations, from hiring to marketing. A report on how these changes could affect businesses of all sizes and types.

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What Does Your Firm's Name Say to Customers?

How a company identifies itself sends a message—and not always the right one. Sometimes a name change is needed.

By Clive Chajet

THIS YEAR a record number of companies will modify their corporate identities. Change is occurring not just in top-tier corporations but also in smaller, emerging corporations.

Competition for attention in the investment community and in the marketplace makes corporate identity and corporate positioning just as important for small companies as for large ones, but for different reasons.

CLIVE CHAJET *is chief executive officer of Lippincott & Margulies, a communications marketing and design consulting firm with offices in New York and London.*

For the management of a large company, a name change that redefines the company may be just the most visible part of a strategic plan for growth through diversification. But for smaller companies, a positioning strategy and a clear identity are requisite for distinguishing themselves from their competitors and making a definitive statement about who they are and what they do. The number of emerging companies taking this tack grows every year.

One firm that needed to update its image was a South Central fast food chain, Burger Queen. To break out of the restrictive burger ranks and assume a more distinctive identity, the firm recently adopted the name Druther's. The new name permits the chain to develop a broader menu.

The best way to meet the challenge of today's rapidly changing marketplace is with a communications strategy aimed at realizing your corporate objectives. The strategy could involve a critical review of your corporate image.

Such a review should include market and image research and interviews with senior corporate management to determine your company's unique strengths and weaknesses.

ONLY AFTER THESE findings have been analyzed can you answer this question: Should we change our name?

For some companies, there are substantial reasons why the answer is no.

The analysis may determine that the established value in a company's present name outweighs any benefits to be gained from a name change. What is needed instead may be a strategy that would more sharply focus on the company's strengths and project its present name clearly and forcefully.

For example, when American Express considered a name change several years ago, analysis revealed tremendous worldwide equity in the current name. Instead of adopting a different name, a new logotype and graphic design system were developed that created a strong, uniform awareness of the company's various operations—traveler's checks, travel services, credit card.

In other cases, analysis may reveal problems of corporate structure or organization that a new name or logo would not solve. In fact, a new name in such a situation could even prove counterproductive, causing financial observers to conclude that management was attempting a quick fix.

PHOTOS: JOE TRAVER

The old name confined this bank's image to savings in Buffalo. The new name, Goldome, frees the firm to explore all kinds of financial transactions. Yet long-time customers recognize it as the same bank whose corporate office features a gold dome.

PHOTO: KEN TOUCHTON

American Express had too much equity in its well-known name to risk changing it. Instead, the company redesigned its graphics for greater impact.

Analysis may reveal, however, that the company's audiences still see it as it was in the past and are not aware of its present performance. Or they mistake a part of the company for the whole. Or they misread or misunderstand the company in other critical ways. A name change could be a step toward resolving such problems of perception.

Having the right corporate name can offer you many benefits:

• It can help reposition your company in the eyes of Wall Street by more effectively indicating what the company is and what it is becoming. Allied Chemical Corporation, for example, was incorrectly known primarily as a manufacturer of chemicals; the new name, *Allied Corporation*, signals the company's strategy of diversification.

• It can distinguish your company from the competition, often helping to increase market share. *Goldome* frees the former Buffalo Savings Bank from the limitation of geography as well as from connotations of limited financial services. But since the gold dome is a symbol that Buffalo residents recognize because of a community landmark, the new name has the added benefit of a link with its original market.

• It can help change attitudes among your employes. Although Hart Schaffner & Marx consisted of a number of diversified brands, stores and divisions, the corporate name was usually associated with only one line of high-quality men's clothing. Of the value of changing the name to *Hartmarx Corporation*, Jerome S. Gore, chairman and chief executive officer, says: "We regularly find unexpected benefits, and one of the major advantages is the unifying psychological effect this has had on our associates. Everyone now feels a part of Hartmarx. In the past, it was difficult for some of our people to feel they were full-time members of the family."

• It can be instrumental in attracting the top-caliber executive, scientific and engineering talent necessary for growth, a fact not lost on the management of the former Tampax Incorporated when the decision was made to expand it into a diversified consumer products company, *Tambrands*.

All these benefits can go a long way toward helping you achieve the public perception necessary to implement your current corporate strategy. □

A Name Change Checklist

The decision to change a corporate name must be based on a corporation's needs and goals. Although most companies find that a name change is not necessary, the following questions will help you determine whether your company should consider a change.

• Is your present corporate name restrictive of corporate activity? U.S. Rubber, General Baking, Cincinnati Milling Machine—such names once provided a distinct image for these companies and what they did. As times changed and each company expanded into other areas of industrial activity, the names were no longer accurate. The current names for these companies are considerably less restrictive.

Uniroyal unites the company's many international businesses and, in some countries, eliminates the perception that the company is a part of the U.S. government. *General Host* frees the company of its baked-goods connotation and suggests the broader idea of hospitality. *Cincinnati Milacron* combines parts of two words that effectively convey the company's activity—millimeter, a precision measure, and chronometer, a precision measuring tool.

• Is your name geographically limiting? As companies expand into new markets, a strong regional identity may become inappropriate. Such was the case for Tennessee Gas Transmission Company, Pittsburgh Plate Glass and Pacific Car & Foundry. Today these companies are recognized by their nongeographically limiting names: *Tenneco*, *PPG Industries* and *Paccar*.

• Is your name distinctive? If a name is long or awkward, it can hinder marketing efforts. Consolidated Mining and Smelting Company of Canada, Ltd., changed its name to *Cominco*—much simpler and more distinctive.

• Is your name memorable? A word like American is found in so many corporate names that such a name can often be less than memorable. American Brake Shoe & Foundry chose a new name—*Abex*—that helped it stand out from the competition.

• Does your name lend itself well to visual presentation? In an era of video communications, an effective name must create a strong visual presence. Usually, the shorter the name, the greater the visual impact. Examples include *Citgo*, *NYNEX* and *RCA*.

• What is the name's image on Wall Street? If a corporate name implies a limited business scope, the company risks being misunderstood, underestimated or even overlooked by financial analysts. United Aircraft was originally a defense-related company; the new name, *United Technologies*, signals to the financial community and other important audiences that here is a company with a strategy of diversification and multiple strengths.

The Venture Specialists

As the capital pool grows, investors narrow their focus.

ATTRACTING A venture capitalist's eye could well be easier these days. There is more investment money, and more venture capital firms are specializing by industry, region and type of financing. Whether a business is bursting to expand or still a gleam in its entrepreneur's eye, a venture capitalist is waiting to fund it—provided it has the right stuff.

The right stuff has not changed. The firm's management team must be experienced in developing and marketing products in its field, the market must be there, the product must be distinctive, and a high return on investment must be in prospect. But the new directions in the venture capital industry make it more likely that a firm in need of financing can get it.

Verging on bankruptcy, financial printer Pandick Press was saved by three venture capitalists in 1966 and has thrived since then.

PHOTO: PANDICK PRESS

The amount of venture capital disbursements has risen substantially. In 1980, according to Venture Economics, an industry research firm, the total dollar amount invested was $1.1 billion. Its estimate for last year: $3 billion.

And the pool is growing. The $1 trillion pension fund industry is investing some 30 percent of its assets in venture capital operations—up from its accustomed range of 15 to 20 percent. Corporations are also becoming limited partners in venture capital firms, as well as setting up their own venture capital subsidiaries.

"In the mid-1970s, a big partnership might have been $30 million," notes Charles W. Newhall III, a general partner in the venture capital firm of New Enterprise Associates. "Now you have venture funds with assets in excess of $300 million and several partnerships in different stages of development. I think you'll see venture capital institutions handling $500 million in the future. Think of the tremendous economic benefits for the country. One $200 million or $300 million pool could create 10 to 15 times the revenues."

But Aldo DeFrancesco, president of Medical Technology Advisers, of Flourtown, Pa., a new venture capital firm, contends that "smallness and flexibility are important to the industry. If we become unwieldy financial behemoths, we'll end up spreading money around so much that we lose track of our investments. And the risks are too high in this business to do that."

Once, venture capitalists clustered in California, Boston and New York. The new firms in the Southeast, Southwest and mid-Atlantic states will help stimulate company formation in those areas of the country and, Newhall maintains, fire up healthy competition in the venture capital business. "Firms with a more national orientation will be pitted against those that are locally based," he predicts.

Competition in the Denver-Boulder area is an example. Just over two years ago the region had a $5 million venture capital base. Today, the figure is $20 million, says R. Terry Duryea, national industry director of the high tech group for Deloitte, Haskins & Sells, the accounting and tax firm. To compete, the established venture capital firm of Hambrecht & Quist, based in California, set up an affiliate fund in Denver.

The new regional firms tend to invest half of their funds locally; with the other half they may target particular industries in other parts of the country.

Some venture capital firms will fund all types of projects and products.

Allied Capital Corporation in Washington, D.C., for example, backs a wide range of industries, from a leading manufacturer of women's dresses, to a company that makes solid jet propulsion systems for military rockets, to a pharmaceutical firm whose product to treat herniated discs is an alternative to surgery.

Says David Gladstone, executive vice president, "If you're innovative, Allied will take a look. We're dealing now with a company that is manufacturing a new type of cement that has the tensile strength of steel—great for making airplane wing molds."

But many venture companies have a focus that reflects the expertise of the former corporation executives who founded them. Take DeFrancesco's firm, Medical Technology Advisers. Staffed by former executives of medical companies and mutual fund management specialists, it is concentrating its investments in medical technology enterprises.

"It makes a lot of sense not to be all over the board, since many investors want their money going into funds with a focus," says David Thompson, national coordinator for venture financing at Deloitte, Haskins & Sells. "In addition, a venture capitalist just can't keep up with all the different technologies that are appearing."

BESIDES SPECIALIZING by industry and region, venture capital firms are distinguishing themselves by type of financing—seed, expansion, turnaround, leveraged buyout.

For example, Narragansett First Fund, a Providence, R.I., private partnership, finances leveraged buyouts in the $20 million to $100 million range.

Other venture capitalists put up financial stakes in turnaround efforts.

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When the financial printer Pandick Press was on the brink of bankruptcy, in 1966, three venture capital firms sank $200,000 cash in its recovery. Now Pandick is registering more than $121 million in sales with more than $10 million in after-tax profits and a work force that has tripled.

Allied Capital funds startups only occasionally because it is highly leveraged and borrows most of its money. Startups can mean a two- to three-year wait before the new company breaks even—much too long for a venture capitalist who must pay back the borrowed money.

Nevertheless, the number of venture capital firms that are involved in seed financing and startups is looking good, according to Daniel Kingsley, executive director of the National Venture Capital Association. He sees "a more concentrated move on the part of venture capitalists toward startups. Other phases are much more expensive."

Notes Daniel S. Gregory, chairman of Boston's Greylock Management Corporation: "More ideas are being seeded out there than ever before."

Rensselaer Polytechnic Institute offers startup firms an incubator, providing them with office space, financial assistance and access to faculty for guidance and hands-on help. States are discovering self-interest in funding new high tech companies—to expand both their tax base and job opportunities for state residents. Connecticut, Massachusetts and New York have funneled capital into several dozen firms.

Corporations that want to invest in a promising technology are also providing seed capital. Others may help seed a company indirectly by providing management assistance or making a marketing contribution. One large Boston corporation, for example, gave a software engineer 1½ years of free computer time worth $2 million to develop a sophisticated computer program. The company, in turn, now has the right to use that program in-house.

Research and development partnerships are another tack for investors who can put only $5,000 to $10,000 in a blind venture capital pool toward the manufacturing of a prototype. This pool, sponsored by a venture capitalist firm, forms R&D limited partnerships and makes investments in startup companies. The attraction in such an undertaking is that the individual investors can deduct 85 to 90 percent of their investment as an R&D expense.

Deloitte, Haskins & Sells' Duryea predicts that by the end of this decade, a record $2.25 billion will have been put up by R&D partnerships. Eventually, he says, such partnerships will overtake traditional venture capital funding as the primary means of raising seed capital and first-round financing.

For those businesses that may mature at a slower pace, there are the small business investment companies—venture capital firms that are highly leveraged and borrow mostly federal monies for their diversified portfolios. In return for supplying equity capital, long-term loans and management assistance exclusively to small businesses, SBICs are able to supplement their private investment capital with funds borrowed from the federal government at an interest rate slightly above the cost of money to the U.S. Treasury.

PHOTO: STEVE GOLDBLATT

Venture capital firms should be small and flexible, says Aldo DeFrancesco of Medical Technology Advisers.

"SBICs are uniquely able to finance companies that are not explosive," says Walter Stults, president of the National Association of Small Business Investment Companies. Because investments are long-term—five years minimum—the SBIC type of investment is for "patient money, not for traders," Stults observes. SBICs can wait longer because of their government tie. They are unlike the traditional venture capitalists who are looking for a fast return on their investments because they may have borrowed substantially from private sources and must answer to a number of private investors.

But to make it worthwhile, he adds, "the business must have a corner on a $1 billion market."

SBICs, which include many bank subsidiaries as well, have invested more than $4 billion in 60,000 independent businesses since the program was established in 1958.

Capital Southwest Corporation, a Dallas SBIC, has holdings in businesses that most venture capitalists would consider low priority—if not ignore. The company's interests are in a mobile home manufacturer and a highway right-of-way mower firm, and it holds shares in firms that sell financial printing services, plumbing products, grease and burial plots.

What industries will attract the most venture capital attention? The information field is one sure bet, with new computer applications, laser and optical fiber transmission and smart robots. Such exotic areas as bionic medicine and artificial intelligence will draw venture capitalists as well. And strong growth is expected in consumer-related industries, geriatric care, hazardous-waste management and housing rehabilitation.

Whatever the industry, the company seeking capital needs a superior business plan. Says Newhall of New Enterprise Associates: "It is a reflection of the management. It should be a well-thought-out document of 20 to 35 pages that's backed up by whatever exhibits are necessary, with very clear strategic direction and a description of the management team."

Deloitte, Haskins & Sells provides a matchmaking service to ease the traumatic and time-consuming attempts of fledgling firms to link up with the appropriate venture capitalist.

"We get our clients ready to see a venture capitalist," explains David Thompson, national coordinator for venture financing. "Our advice may come down to saying, 'You need a lot more information in your summary' or 'I don't understand the market you're in; can you explain that better?' Then we'll make the proper introductions."

Another matchmaker is University Patents, Inc., which puts university-bred technologists in touch with the right venture capital firms.

Not every entrepreneur will find his venture capitalist. Allied Capital's Gladstone estimates that 80 percent of the new businesses that merit funding receive it. "Unfortunately," he says, "the rest have to scrounge for themselves."

As Greylock Chairman Gregory says of the venture capital industry, "We are peanuts, compared with the amount of money Americans could invest in new ventures. We are a $10 billion industry—a tenth the sum in individual retirement accounts."

Adds Kingsley of the National Venture Capital Association: "It's true that more money is being committed to venture capital. But there is not enough capital out there to fund all the worthwhile opportunities we see."

—Mary-Margaret Wantuck

Fired Up About Pellets

Frictions over restrictions mark U.S.-European economic relations.

THE UNITED STATES' trade relations with Western Europe are worsening. U.S. officials are upset over actions that they say have contributed to a loss of this country's traditional surplus in trade with the Europeans. And now they have a new source of aggravation: a decision on an obscure but financially important livestock feed called corn gluten.

Pellets of this protein-rich substance from the corn belt are fed to European cattle whose milk becomes the edam, brie and munster cheeses that Americans enjoy further down the food chain.

But instead of being a sterling example of the flow of free trade, U.S. exports of corn gluten to Western Europe have produced friction. Officials of Europe's 10-nation Economic Community—the Common Market—complain that such exports, totaling $700 million last year, are damaging EC grain farmers' domestic sales.

The EC recently decided to sharply cut back corn gluten imports. American trade negotiators are protesting. The decision, they say, is a violation of previous trading agreements. It also comes at a time when the surplus in trade with Europe—$2.1 billion last year—has eroded into what could be a $10 billion-plus deficit in 1984.

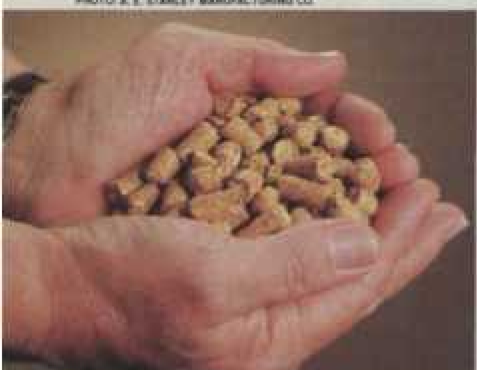
Agricultural trade problems lead a growing list of American complaints that the EC, which ostensibly supports free trade, is restricting imports across the board and unfairly subsidizing exports that compete with American sales to third party markets.

The air is full of protectionist cries on both sides of the Atlantic. Europeans are riled over American curbs on steel imports and support in Congress for California-backed legislation that would curb some European wine imports. In economic crisis-ridden Europe, political pressure is mounting to raise barriers against imports that threaten jobs in a work force where unemployment is already high.

In the mid-1970s Europe expanded food production, moved from a deficit agricultural relationship with the rest of the world and began aggressively exporting crop and livestock surpluses. In doing so, it ran headlong into America's strong food export program.

"The crisis point will come over agricultural subsidies," predicts Cecilia Leahy Klein, top EC analyst at the U.S. Trade Representative's Office. The EC's Common Agricultural Policy underwrites food production in a way that both diminishes imports and boosts exports. In recent years, for example, EC poultry sales in the Middle East have exceeded America's.

PHOTO: A. E. STALEY MANUFACTURING CO.



Leading a long list of American trade problems with Europe is the Common Market attempt to restrict corn gluten animal feed.

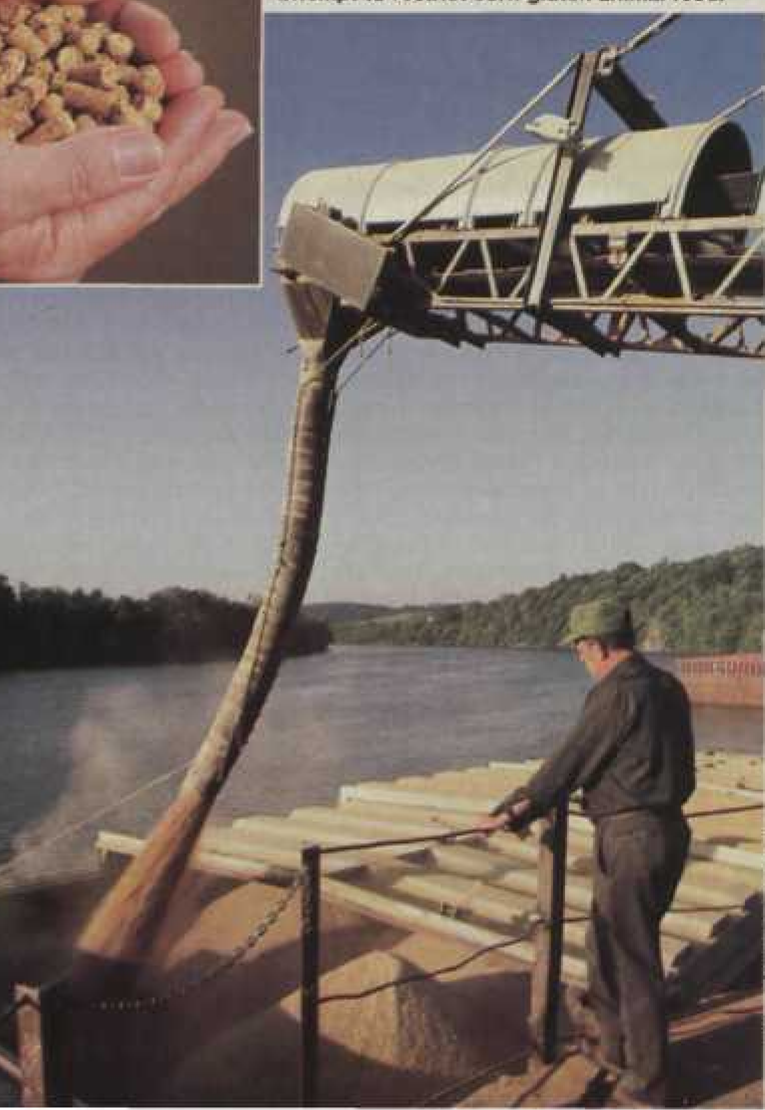


PHOTO: CORN REFINERS ASSOCIATION

MORE THAN A dozen major trade issues are simmering between the United States and Western Europe. Collectively, says U.S. Trade Representative William Brock, the Europeans pose a greater challenge to America's trade balance than do the Japanese.

As recently as 1980, the United States had a $20.9 billion surplus in trade with the EC. The free-fall drop is chiefly attributable to a strong dollar that makes exports more expensive and European imports here more attractive.

But, say many American analysts, much of the problem can be explained by Europe's attempt to insulate itself against the chill of trade deficits at a time when America's early recovery from recession has created a strong pull for goods from the Old World.

Peter Hale, director of the Commerce Department's office of European Community, says there is "no real answer in sight" to Europe's fundamental internal and external economic problems. The EC, he says, has lost its competitive edge in recent years because costs of welfare state programs to protect labor and ensure abundant social ser-

vices have drained economic productivity. When faced with challenges, the EC circles its wagons, Hale says.

"We tend to feel that the EC, because it is slower coming out of the recession, wants other countries to pay for its problems," he says.

Brock recently told Congress: "Over the next few months protectionist pressures on both sides of the Atlantic may actually increase in response to our mounting trade deficits and their high unemployment. We must all recognize that a new wave of trade restrictions would threaten recovery in both the United States and Europe."

He said the healthiest course is liberalized trade relations and even cooperative efforts in some fields, like aircraft manufacturing.

THE EC, says Sir Roy Denman, its ambassador to the United States, also has some major problems with American trade policy. He says agriculture in the United States has produced swollen surpluses for export because of multibillion-dollar subsidies for domestic production.

Some American states' practice of levying unitary taxes on international firms' worldwide sales is discouraging investment in the United States, he adds.

Denman says that the EC is rankled by a congressional proposal to prohibit Europe's re-export of American high tech wares that the Pentagon believes are being funneled to Warsaw Pact nations. The North Atlantic Treaty Organization (which includes most EC nations) is able to filter out militarily useful components without instructions from Washington, he says.

Still, Denman says, "What unites us is more than what divides us," a view shared by American officials. On both sides, there is fear that an accumulation of difficulties could be disruptive at a time of economic stress.

The Commerce Department makes the following forecasts on EC-American trade for this year:

- American exports, in decline for three years, will wind up at about last year's $56 billion level.
- American imports will rise "significantly" above last year's $53 billion.
- European unemployment will continue to hover near 10.5 percent and will stunt growth of demand.
- American machinery sales stand a chance of rising, as Europe struggles to retool. Sales of paper, plastic materials, metal goods and textile products could show modest growth.
- Demand for U.S. farm products will rise slightly. Among the top sellers: wheat, coarse grains and soybean meal.

Despite frictions, observes U.S. trade official Klein, "We're still talking. We're trading a lot. And we're trying to find ways to avoid confrontation."

Bringing a Message About Export Muscle

In the dead of last winter, with America's trade deficit mounting—it reached a monthly record of $8.9 billion in February—two groups dedicated to boosting U.S. exports were being born.

Their basic message: America has far greater export muscle than it is using. The Commerce Department says only 30,000 of the country's 300,000 manufacturing firms regularly export.

One of the groups is the Export Education Project and Export PAC, which draws support from both political parties, management and labor, town and country.

The Atlanta-based group is led by former Georgia Gov. George Busbee. It includes on its board onetime U.S. Trade Representative Robert Strauss, former Transportation Secretary William Coleman, American Express Company Chairman James D. Robinson III, Amalgamated Clothing and Textile Workers Union President Murray Finley, and Marriott Corporation President J. Willard Marriott, Jr.

PHOTO: IAN ELLIS

George Busbee: His trade group was "born out of frustration."

Busbee says that the group "was born out of frustration. Each of us has for years been concerned about two things—the failure of our country to adopt a more enlightened and aggressive export policy, so that we can sustain a healthy economy, and a growing consensus that Americans have somehow lost the national will and ability to come together and be the best."

Another grass-roots effort to enlist those interested in trade began in the U.S. Chamber of Commerce. The National Coalition for Trade is being organized by Michael Samuels, vice president, international, of the Chamber.

Exporters and importers should be better organized to keep free trade lanes clear of government impediments, he says.

The coalition, Samuels explains, should "take advantage of the trade awareness in every locality and assist individuals, companies and communities to advance their interests at the national level."

A Desert Kingdom: Fertile Territory

Saudi Arabian oil revenues are down from their gusher levels of the 1970s, but the desert kingdom is still fertile territory for American exports, says Saudi Commerce Minister Soliman Solaim.

As the United States' demand for imported oil has dropped in recent years, its trade balance with Saudi Arabia has shifted—from a deficit of $3.1 billion in 1979 to a surplus last year of $4.6 billion.

That is in marked contrast to America's current trade deficits with most of its other trading partners, and Solaim says the contrast could become even sharper. He says there is room for more growth in the United States' sales to its ninth largest trading partner—particularly in the professional services field.

"We want the transfer of your technology," Solaim says. "We need American management skills."

The Saudis have made impressive gains in diversifying their economy from its petroleum base. Huge chemical refineries have sprung up, and the kingdom is exporting to Japan, Western Europe and countries throughout the Third World.

Solaim stresses that his country is capital-rich and keenly interested in industrializing in areas like plastics and petrochemicals. Further, he adds, there are opportunities for architectural and medical services projects.

With its transportation and public works infrastructure nearly in place, Saudi Arabia is ready for the next major phase of industrialization. □

—Henry Eason

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The Challenge Of Business in Space

It's costly, risky and tangled in red tape. But some firms have stars in their eyes.

By Henry Eason

DOING BUSINESS in space is going to be tough. The financial requirements for manufacturing, remote sensing of geography and weather, and other ventures are enormous. Transportation and maintenance problems are formidable. Operational risks, a new challenge to insurers, are daunting. And government red tape still binds many ideas to the launching pad.

Despite all the obstacles, American business is beginning to line up like the westward-bound wagon masters of an earlier epoch of discovery and development. By 1987, analysts say, more than $1 billion will be committed to private sector pursuits in space—just seed money in the nation's newest and most dramatic sunrise industry. The satellite communications industry already has many billions invested.

Space is no place for the fainthearted. Yet there is the allure of enough worthwhile—and profitable—activity to create considerable enthusiasm.

Says National Aeronautics and Space Administration head James Beggs: "There is no question that space will be the arena for expanding commercial activity in many areas, including commercial satellites, launch vehicles and launch services, industrial and scientific experimentation and manufacturing."

Even federal officials concede that the government must better accommodate itself to this bustle of activity. Right now a firm must deal with more than a dozen federal agencies that regulate the diplomatic, scientific, tax, insurance, transportation and engineering aspects of space commercialization.

"What we need," says Jenna Dorn, director of the Department of Transportation's office of commercial space transportation, "is to encourage the establishment of a predictable regulatory structure that provides certainty for the industry without stifling it. At this point the primary problem is not that too many agencies are involved, but rather that there are few internal agency processes designed for the unique needs of private sector launches. A balance between regulatory flexibility and predictability is the key."

Rep. Newt Gingrich (R-Ga.), cochairman of the Congressional Space Caucus, believes business is suffering from the embrace of government. "You have a bureaucracy that is very, very reluctant [to give entrepreneurs free rein]. There is a grave danger that NASA will become the Amtrak of space. We do not want the government to socialize space. We want the government to do research and development."

The Reagan administration's goal, says Transportation Secretary Elizabeth Dole, "is to do everything we can to clear the excessive regulations and streamline to the minimum those regulations we think necessary."

DOT's Jenna Dorn is tackling regulatory problems that hamper space ventures.

Aside from regulatory issues, space pioneers are confronted with some harsh economic realities.

Morton Collins, a venture capitalist who is past president of the National Venture Capital Association, says he has turned down a dozen space commercialization proposals for financing. They did not pass the litmus test that any business proposition must pass: profit potential. "But I'm looking at another one now," Collins adds.

"The decision to invest in a commercial space enterprise results from a combination of seat-of-the-pants intuition and careful observations of the technology, marketing and management of a given project," says David Thompson, president of Orbital Sciences Corporation of Chicago.

Space enterprise, he says, is very capital-intensive; development costs for a project run $25 million to $50 million. It also requires "long time horizons" for financial returns, Thompson says, and it depends on new technology, with resulting uncertainties. In short, it is highly risky.

Insurance to cover those risks is in a nascent and difficult period of development. Space insurance, says Brian Hughes, senior vice president of USAIG's Satellite Operations, "is an unusual product. Understand that insurance is the losses of the few shared by the many. However, in the case of space insurance there are not many people available to share the losses."

Under provisions of space treaties the United States has signed with other countries, huge financial liabilities can result if American launches accidentally destroy the equipment of other nations. NASA requires a $750 million policy per shuttle flight.

Given the prospect of big claims, Hughes says, "the space insurance industry cannot be expected to subsidize the commercialization of space."

SPACE ENTREPRENEURS would likewise do well to keep profits in mind. T. Allan McArtor, who leads the satellite systems division of Federal Express Corporation, warns that would-be space ventures "seem to concentrate more on the allure of space" than on its bottom-line business realities.

The government-dominated space effort has been divided into programs

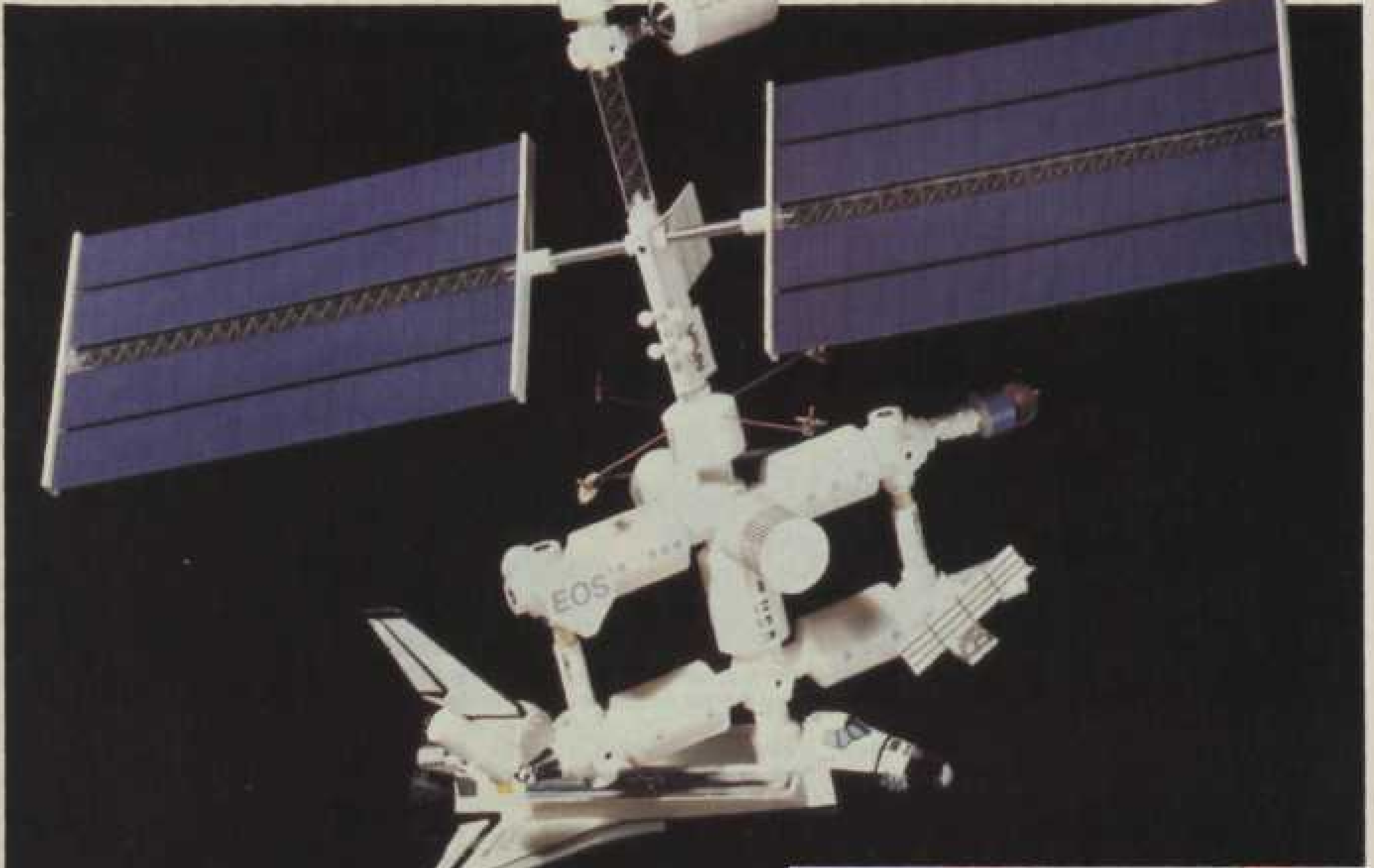

PHOTO: McDONNELL DOUGLAS CORPORATION

The proposed space station (model above) will by the 1990s be a permanent factory where manufacturers can produce materials like silicon crystals. One firm plans to grow crystals for use in items like the bubble memory chip.

PHOTO: DAN McCOY—RAINBOW

that benefit pure science, the military and commercialization. At the highest level of cooperation, these functions cross-pollinate. At the lowest, they compete for scarce resources.

Maj. Thomas Maultsby, a Defense Department intelligence and space policy analyst, says, "All government policies tend to interact. Achieving coherency is difficult. The challenge of government is to sort out a balance among the many competing policies."

Most commercially oriented space projects have occurred on NASA's space shuttle. By arrangement with companies, NASA astronauts have performed numerous experiments that have yielded promising results for many enterprises, like developing higher-quality medicines and growing crystals for high technology industry (see page 48).

President Reagan's long-range goal, one embraced by commercial pioneers, is the proposed space station, a permanent facility suitable for large-scale projects benefiting space science, business and defense.

In other areas, the administration has recommended that meteorological and remote-land-sensing satellites be transferred to the private sector, which it believes can better manage weather forecasting and geological surveying. It has also abetted the private development of expendable launch vehicles for operations the shuttle cannot handle.

All these initiatives are under scrutiny in Congress.

OBSERVERS say that the space effort is still too fragmented to achieve its highest potential. To address that problem, the National Chamber Foundation in Washington has launched a "space enterprise project" that will bring together venture capitalists, insurers, industrialists and others involved in space commercialization. A report on business' concerns and recommendations to government, due in August, should end much of the confusion.

On June 7, BizNet, the television system of the U.S. Chamber of Commerce, will conduct a videoconference linking 25 cities in a wide-ranging discussion of space commercialization issues.

Both government and business have the requisite vision and capital for exploring space, says Brad Meslin, executive vice president of the Center for Space Policy, Inc.

"If policy-makers remain cognizant of private sector concerns about risk management and long-term stability," says Meslin, "the level of investment in commercial space activity will rise significantly as firms use their ingenuity to push out technological advance. It is the role of federal commercialization policy to ensure that myopia does not cloud a bright future." □

To order reprints of this and following article, see page 81.

How a Space Venture Could Ease Suffering on Earth

EOS, IN GREEK mythology, is the goddess of dawn. Appropriately, the name is also the acronym for Electrophoresis Operations in Space, a joint project of McDonnell Douglas Astronautics Company and Johnson & Johnson that will be the first private manufacturing venture in space.

Charles Walker, the first business astronaut, will test materials for new medicines on the next shuttle flight.

For sufferers of diabetes, cancer, hemophilia, emphysema and many other diseases, EOS could mean the dawn of new remedies.

Electrophoresis is a process of extracting materials by electrically stimulating biological matter until molecules separate. When subject to gravity, the process yields only modest amounts of substances used to manufacture pharmaceutical products.

But experiments performed on space shuttle flights have shown that electrophoresis produces 700 times more usable material with 5 times greater purity in a weightless environment. At that rate, producing drugs in space becomes very profitable.

"It could open the door to a new family of space-produced medicines and vaccines," says James Beggs, administrator of the National Aeronautics and Space Administration, a third party in the McDonnell Douglas-Johnson & Johnson business pact.

To encourage business in space, NASA signed an agreement with the two firms in 1980, giving them room to experiment on shuttle flights. In exchange, the companies will allow NASA to use their machinery to perform other kinds of tests. It is part of NASA's joint venture program to encourage commercialization of space.

In June, Charles Walker, a McDonnell Douglas employe, will refine the process on the space shuttle *Discovery;* he will be the first business astronaut.

Medicine will be produced on subsequent flights and will come on the market in 1987.

A full decade will have passed between McDonnell Douglas' conception of the project and the appearance of products on pharmacy shelves. Most companies would not have had the financial staying power, aerospace expertise and vision to undertake what project director James Rose says is such a high-risk venture.

McDONNELL DOUGLAS and its partner Johnson & Johnson have invested undisclosed millions of dollars, and NASA has invested precious space on its shuttle flights. The three are wagering that the space-produced medicine will not be superseded by the ongoing ground-based research of other drug firms—a possibility that could turn business' first major space venture into a failure that could discourage other enterprises.

"Everything is embryonic in manufacturing in space," says Rose. "In this field nothing happens in two or three years. And space is expensive." But because this project is pioneering through the federal bureaucracy, Rose says, other firms will follow an easier path to industrializing the heavens. It will mean, says Rose, that "as this industry matures, things will get better organized, time frames will be drastically cut, and space will be more attractive."

The consortium is also building an automated device that will produce 25 times more material than astronaut Walker will make with the present technology. The pioneers plan to begin operating their own production plant in orbit by the late 1980s; it will be serviced by shuttle crews delivering raw material and collecting products for return to earth.

To do business in space, a firm need not be one of the nation's manufacturing giants.

Richard Randolph, president of Microgravity Research Associates, of Coral Gables, Fla., and several partners have become the second private group to win a joint venture agreement with NASA for manufacturing in space.

Microgravity, applying research done at the Massachusetts Institute of Technology, will by the end of the decade begin growing commercially significant amounts of super-strength, very pure silicon crystals for the semiconductor market.

"We see a trend toward more and more complicated circuitry and artificial intelligence and large-scale integrated circuitry," says Randolph.

"The capability of producing silicon on Earth is reaching a limit," he continues. "But in space, striations in crystals can be completely eliminated, meaning reduced impurities and defects."

The material that Microgravity can manufacture in space will enable the United States to steal a long march on competitors in computer science, a field vital to commercial and military ware, Randolph maintains.

"We knew we were dreaming a big dream, that the star we were reaching for was a bright star," says Randolph. But with an investment of less than $1 million—and a free-flight arrangement with NASA—Microgravity has demonstrated that small business operations can succeed. Experts regard the crystal-growing process as a likely commercial winner.

And, as Randolph says, "what we need in space venturing are some successes." □

—Henry Eason

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MANAGING THE COURSE OF CHANGE

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CHANGING THE COURSE OF MANAGEMENT

A Case of Dedication To Business' Battles

IN THE 1960s, when noisy segments of America's youth were challenging the country's basic institutions—and the establishment often was responding angrily—PepsiCo Board Chairman Herman W. Lay's words were like oil on the waters.

"Prepare yourselves to seize power where the real power is," he advised young people. "Go into business and be as successful as you can. Learn how the engine runs and drive it yourself."

Lay sensed that the strong spirit of the new generation might be harnessed in a way that would help reshape the country—and the world—without toppling America's fundamental institutions.

His blunt message was heeded by many young people involved in the enterprises that he led.

Lay died Dec. 6, 1982, but family, friends and associates gathered at the U.S. Chamber of Commerce headquarters in Washington on May 3 to pay tribute to a living memory.

They dedicated a focal point in the Chamber's continuing battle on behalf of American business to a notable battler for the business system. The Federation Room—scene of policy decision-making meetings of the Chamber's board of directors, as well as visits by Presidents, members of Congress, foreign heads of state and business leaders from around the world—is now the Herman W. Lay Room.

The dedication was in recognition not only of Herman Lay but also of a significant contribution his company has made to the Chamber's "Spirit of Enterprise" campaign—a three-year drive for $35 million to add to the business federation's capital funds. Pledges received in the drive, which began a year and a half ago, have now brought it near the halfway mark.

Among the distinguished business people who serve on the Chamber's board is Donald M. Kendall, PepsiCo's current chairman.

Chamber President Richard Lesher said, "Herman Lay would have been an active participant in the new Chamber because of his dedication to the entrepreneurial spirit that is the backbone of our nation's economy." And, Lesher said, Lay "would have been proud of his business associate and friend, Don Kendall, who has done so much to provide for his company, the Chamber and the business community the backbone that some business leaders have difficulty finding in time of conflict with their government."

Kendall remarked during the ceremony that Lay "has probably taken over by now." When the appreciative laughter subsided, he added, "If there was ever a man dedicated to private enterprise and entrepreneurship, it was Herman."

Lay's son Ward, speaking for the family, proclaimed: "He was, by God, the best salesman that ever lived."

HERMAN LAY, the 1969 recipient of the Horatio Alger Award, practiced something he called "stick-to-itiveness." It was his dramatically successful personal philosophy. To him, it meant that anyone in America could start out with no more than the soft drinks and peanuts he peddled as a boy at baseball games in Greenville, S.C., and become head of one of the country's biggest corporations.

In a wide-ranging interview with NATION'S BUSINESS at the peak of his career, Lay said that, despite changes in the economy since his birth in 1909, young people still had opportunity to rise as he did. "There are so many new products emerging, and even new industries," he said.

Lay spent a lot of time encouraging enterprise in the young, but he cautioned them that if a person wants a business career, "he's going to have to make some sacrifices along the way. He will have to put more than the average amount of time and effort into his career. He has to sort of eat it and sleep it, and sometimes the family is going to have to share the sacrifices."

For Herman Lay, the result of a lot of time and effort was Lay's Potato Chips, one of the world's best-liked snack foods. Later, when Frito-Lay merged with the Pepsi-Cola Company to become PepsiCo, he pushed the company into many other successful product lines.

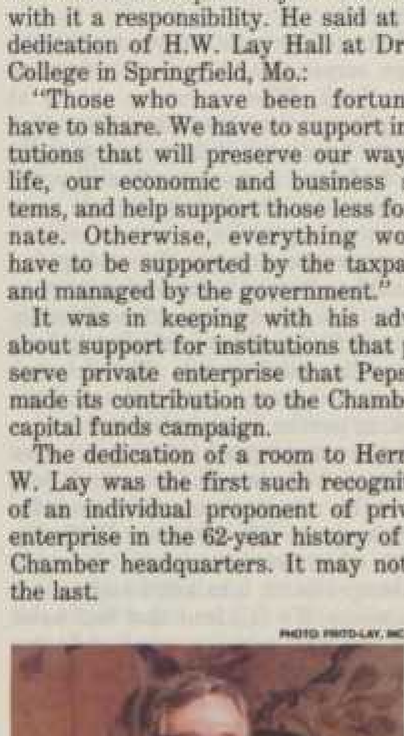
He also preached that acquiring wealth and influence thanks to the American enterprise system carried with it a responsibility. He said at the dedication of H.W. Lay Hall at Drury College in Springfield, Mo.:

"Those who have been fortunate have to share. We have to support institutions that will preserve our way of life, our economic and business systems, and help support those less fortunate. Otherwise, everything would have to be supported by the taxpayer and managed by the government."

It was in keeping with his advice about support for institutions that preserve private enterprise that PepsiCo made its contribution to the Chamber's capital funds campaign.

The dedication of a room to Herman W. Lay was the first such recognition of an individual proponent of private enterprise in the 62-year history of the Chamber headquarters. It may not be the last. □

PHOTO: PHOTO-LAY, INC.



PepsiCo Chairman Donald Kendall and Herman Lay's widow, Mimi, admire a plaque for the Herman W. Lay Room. Inset: Enterprise advocate Lay.

Turning Confrontation Into Communication

Disputes are inevitable. The first step toward winning: Control yourself.

By Arch Lustberg

IN TODAY'S competitive world, confrontation is inevitable. The possibility of a faceoff exists in every facet of your life—professional as well as personal.

It exists at public meetings and in private arguments, at the office and at home, with your senior partner and with your son, in practically every situation involving more than one person. You cannot pick the time or the place for a confrontation, but you can control your response and even the terms of the debate—and thus convey your ideas effectively.

First, concentrate on your attitude. When someone hits you, you want to strike back. When someone shouts at you, you want to shout back. Though a natural tendency, it is not a winning one. In fact, it is a waste of energy. Do not shout denials. Calmly explain your stand and be positive.

Next, concentrate on breathing and relaxation. Proper breathing creates an almost instant feeling of well-being. You will find you can immediately banish tension and stress. The relaxed, self-assured person can think—and the thinking person can take control.

The key to proper breathing involves moving the diaphragm (the muscle just below the rib cage) to make room for your lungs to fill with air. Difficulty arises when we incorrectly move the diaphragm *in* on inhalation and *out* on exhalation. We fall into that bad habit when we are nervous, thus reducing our oxygen supply just when we need it most. The trained singer practices breathing exercises as assiduously as scales. You must do the same.

Next, know exactly what you want to do. If you are certain that a meeting has potential for confrontation, take time to plan your strategy. Determine what you want to accomplish and how you can best make your point. Never lose sight of your objective.

Do not spoil your planning by getting irritated and snapping at the person you are talking to. You will undoubtedly say something you will regret. And if that happens when you are talking with the media, your unfortunate comment may be used to conclude a broadcast interview—or it may be the only thing you say that is broadcast.

Expert communicators direct their thoughts to those people who do not have an opinion on the subject at issue. (This "audience" may even be imaginary, as when you and your adversary are the only people present at a meeting.) An upbeat statement directed toward them will serve your purposes much better than a defensive quip aimed at your adversary.

Speak simply, clearly, concisely. We have become a people who think that we have to use big words or jargon to appear "in the know." I recommend that you replicate, interface and offload only in the privacy of your own home. Speak English in public.

All of us have four weapons that will help us communicate: the mind, the face, the body and the voice. Though we generally use them correctly in animated conversation, we almost never use them correctly when we are tense, afraid and intimidated.

How can you use your mind creatively when face to face with an adversary? The best tool is the pause. It gives you time to think of a positive response, time to eliminate negative comments.

Remember, however, that the pause will work only if it looks comfortable. The key is to remain silent and maintain eye contact with the person you are talking to.

This means that you should avoid such audible pauses as "uh . . . uh . . . ," "like," "I mean" and "you know" and that you should not give the impression that you are afraid to look your adversary in the eye. Eye contact does not necessarily mean eye to eye. If you find that uncomfortable, try focusing on a certain part of the person's face. Most people, in fact, look at the lips.

Television provides a wonderful opportunity to study the pause. The next time you are watching an interview, notice how the pause—when used correctly—makes a person appear more confident.

WHAT ABOUT effective use of the face? The smiling, animated face is one of your strongest communications tools. And it is one you will probably use most often after you have mastered certain basics.

All of us usually "open" our faces when we are talking with someone. The problem is that in confrontational situations we often close the facial muscles, creating a frown line that we think makes us look "professional."

Try this exercise in front of the mirror to get your facial muscles to work

This article was adapted by Mac Edwards from Winning at Confrontation, *by Arch Lustberg.* *© 1984 by the Association Department, U.S. Chamber of Commerce.*

PHOTOS: LINDA BARTLETT

Arch Lustberg conducts Communicator Workshops at the U.S. Chamber of Commerce. He demonstrates that effective communication depends on breathing properly, on avoiding ineffective posture and on adopting an open, not a closed, expression.

for you: First, tighten the brow as much as you can. Hold that position and count aloud from 1 to 5, then relax. Repeat the exercise, counting a bit louder. Now open your brow. Make the lines in your forehead that come when your eyes are wide open and your eyebrows are arched. Hold that position and count aloud to 5.

Repeat the exercise. This time count as quietly as possible. You are not only opening your face, you are also speaking in a warmer, friendlier, more communicative way.

Get your body into the act of communicating, too. Probably the most animated forms of communication are gossiping and telling secrets. Watch two people deep in conversation. They are not just talking, they are painting pictures with their faces. Their entire bodies are alive.

You can do the same. Talk with your body as well as with your face.

The hands are the most used—and abused—part of the body when it comes to communication. You need to make them work in concert with the face—and make them less conspicuous when that is appropriate.

All of us tend to hide our hands, just as we do our faces. You probably clutch one in the other, hold them behind your back, put them in the folds of your arms or put one in a pocket and grab your wrist or forearm with the other. You thus end up calling attention to your hands—not communicating.

Try standing with your feet about as far apart as the width of your shoulders. Shake your shoulders a few times. Then let your hands fall naturally. Now you are in position to use your hands in animated conversation. When you begin talking with someone, keep your hands and fingers still. Make gestures when you feel they will complement the points you are making with your face and voice.

Your voice tends to follow the personality created by your face and body. When one is warm and friendly, so is the other. When one is cold and hostile, the other follows suit.

You can add interest and drama to your voice by learning when and how to use pitch, rate and volume. Pitch is the position of the sound on the musical scale. Rate is the duration of sound. Volume is the decibel level.

Volume is the least effective vocal tool. It is useful only when your purpose is to discipline a child or a pet. Loud sounds are irritating.

To communicate, you must express yourself. The best expression comes with uninhibited and unself-conscious use of pitch and rate. For example:

- "I had a wonderful time." (Unless you do something wonderful with *wonderful*, your host will think you are lying.)
- "It was a magnificent day." (Make *magnificent* truly magnificent.)
- "That garbage gave off the most foul smell." (It couldn't have been worse!)
- "Give me that knife." (If you don't, you'll be sorry.)

That is vocal flexibility: the willingness and ability to use these vocal tools.

So there you have the steps you can take to become an effective communicator—to win at confrontational situations. You can adapt them to any situation. If you are prepared, you will have an excellent opportunity to win.

You have something valuable to say. Learn to say it well. □

Copies of both *Winning at Confrontation* and *Testifying With Impact* can be ordered from Hugh McCahey, Manager, Association Department, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. Cost is $8 each. Make checks payable to the U.S. Chamber of Commerce. District of Columbia and California residents should add appropriate sales tax.

Fear of Speaking

For thousands of Americans, fear of public speaking has serious consequences because their jobs require them to give testimony before local, state or federal legislators.

Their fear—combined with a lack of the proper communications skills—often keeps them from making the impact they want.

Among the types guaranteed to turn off an audience:

- The droner who delivers a boring text without vocal inflection, facial expression or eye contact.
- The ill-prepared scaredy-cat who stumbles through his text with an assortment of nervous tics.
- The long-winded bore who thinks more is better.
- The greeting reader who keeps his eyes glued to the page, even reading "good morning."
- The statistician who overwhelms his audience with numbers that no one can relate to.

You can avoid falling into those deadly categories by mastering some basic principles:

- Strive for an easy, open facial expression.
- Use body language to emphasize words.
- Pause to allow time to breathe and throw off stress.
- Control your voice, varying your inflection and emphasis.
- Maintain eye contact with your audience.

You can also make your testimony more effective by keeping it simple and short.

Remember, you want to communicate ideas, not just read words. Testimony that is well delivered will win the day.

Adapted from Testifying With Impact, *by Arch Lustberg.* © *1983 by the Association Department, U.S. Chamber of Commerce.*

Insuring Against Computer Failures

It's one of many changes.

By Leah R. Young

Computer breakdowns can be costly—but measuring the cost can be difficult.

WOULD A BROKER, large retailer or bank be hurt severely in the 1980s if it lost its computer capacity? Does the broker, retailer or bank have insurance coverage to protect it against such losses?

Although the answer to the first question is a resounding yes, the answer to the second is apt to be no. This type of insurance is still in its infancy, and many businesses operate without any protection.

In fact, some large insurance brokers recommend as the best protection not their own products—insurance policies against the risk—but backup computer facilities.

Coverage to protect against sudden loss of computer capability is growing, however, and companies offering this coverage indicate they are currently earning money, unlike underwriters in general liability, product liability, commercial auto and professional liability, says William Long, a St. Paul Group underwriting executive.

St. Paul, which pioneered coverage of large computer room and data processing facilities in the 1960s, has just designed a policy to cover computers and data processing equipment in firms that are not primarily in the business of providing data processing services.

In the past, Long explains, wholesalers, food brokers and the like could not obtain business interruption coverage if they did not derive their income from data processing.

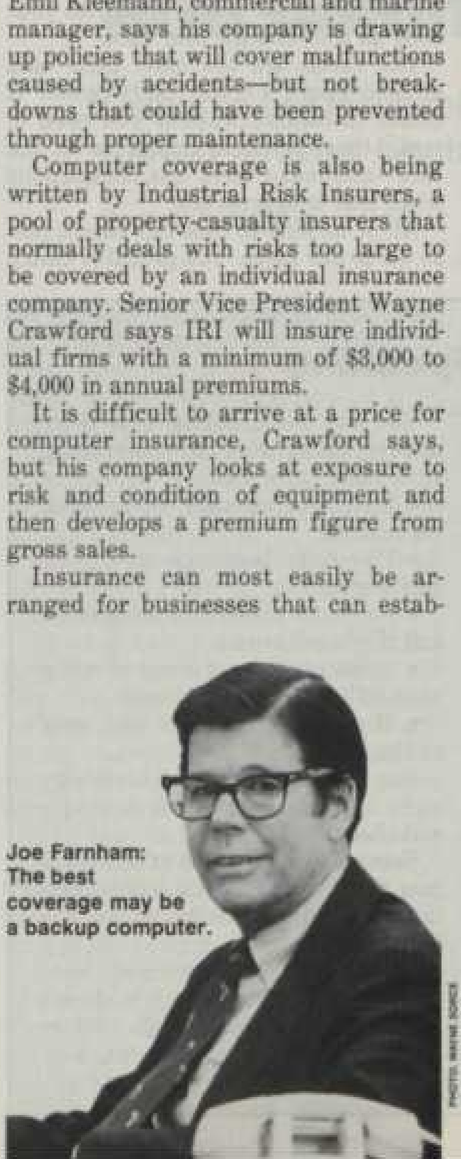
The new policy is an attempt to put all exposures under an insurance blanket that covers everything from computer breakdowns, and the extra expense incurred, to flood and earthquake protection. The St. Paul policy would cover a broker, say, whose loss of computer capacity meant loss of investors' business for a day, week or month. The policy would not provide compensation for longer-term loss of business suffered because customers turned to a competitor during the breakdown and never returned.

Another pioneer in the computer insurance area is the Kemper Group. Emil Kleemann, commercial and marine manager, says his company is drawing up policies that will cover malfunctions caused by accidents—but not breakdowns that could have been prevented through proper maintenance.

Computer coverage is also being written by Industrial Risk Insurers, a pool of property-casualty insurers that normally deals with risks too large to be covered by an individual insurance company. Senior Vice President Wayne Crawford says IRI will insure individual firms with a minimum of $3,000 to $4,000 in annual premiums.

It is difficult to arrive at a price for computer insurance, Crawford says, but his company looks at exposure to risk and condition of equipment and then develops a premium figure from gross sales.

Insurance can most easily be arranged for businesses that can establish what costs they will incur as the result of a breakdown, says Joe Farnham, vice president of Johnson & Higgins, a nationwide brokerage firm. Policies are being written, for example, to cover the expense of leasing new equipment.



Joe Farnham: The best coverage may be a backup computer.

MANUFACTURING companies can be insured against computer malfunctions more easily than service firms, Farnham says, because losses can be measured more precisely when the manufacturing process is halted by computer-related problems.

But Allan Riefs, president of Arcadia Group, Inc., a smaller insurance broker in New York City, argues that for a small service firm, the cost of a business interruption caused by computer problems is really no harder to estimate than the cost of an interruption caused by fire.

Riefs says he designed a policy three years ago to cover business interruptions caused by computer malfunctions. He adds, though, that companies that are his clients—commercial firms, not industrial giants—have been slow to accept the need for such coverage.

Johnson & Higgins recommends that some of its clients acquire backup computer capacity rather than purchase insurance. Though substantial out-of-pocket expense is involved, Farnham acknowledges, backup capacity is the best route for many computer-dependent businesses because of the difficulty of writing adequate insurance policies.

He says he knows of investment houses that have purchased space and

LEAH R. YOUNG *writes about insurance, banking and law from Washington.*

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equipment that are actually "gathering dust" so that there is a backup system in a "usable form."

A separate problem is highlighted in the recent movie *WarGames*. Young computer whizzes are tapping into business computers for fun, but hackers' fun can be costly if they destroy information or even whole programs. Actual planned thefts of information by professional criminals are a related risk.

Shand Morahan & Company of Evanston, Ill., is one insurance firm that has been active in insuring against computer theft. Policies being issued will protect against entry into the computer by an unauthorized party who causes a malfunction. The policies cover the cost of restoring data and any costs associated with illegal transfer of funds or inventory.

Both Shand Morahan and St. Paul are marketing policies to cover the sellers of computer services as well. These policies insure against lawsuits alleging that computer programs did not do what they were supposed to, St. Paul's William Long explains.

Kemper is selling policies to homeowners to cover their personal computers and also marketing policies that protect against "mysterious disappearance of a program" but not accidental erasure of a few feet of tape, Kleemann says.

In a much more established area of coverage, health insurance premiums are going up 15 to 30 percent this year, depending on the size and location of the business. Health care is the most inflationary sector of the economy. The health insurance industry saw a 10 percent rise in the medical care index in 1983, compared with a 3.8 percent increase in the overall consumer price index.

The Health Insurance Association of America estimates that private insurance carriers will pay $8.8 billion in charges rung up by patients covered by Medicare—an increase over 1983 of nearly 50 percent. This subsidy of Medicare by private insurance carriers results when government payments do not cover expenses.

Employers around the country have been trying to control escalating costs for employe health insurance benefits. They have turned to health maintenance organizations, which treat patients at a predetermined annual fee, and even, at Chrysler Corporation, to an experiment called "One Check Leads to Another."

Former Secretary of Health, Education and Welfare Joseph A. Califano, a Chrysler director and chairman of its health care committee, described this experiment to a congressional committee. The company, he said, encourages employes and retirees to scrutinize their medical bills for inaccuracies—and "where they find overcharges, we share the refund with them."

Another idea being explored by some companies has been to offer flexible benefit plans, in which employers set aside a certain amount of money for employe benefits and the individual divides the sum according to his personal needs for health insurance, life insurance, day care and other options.

But a popular offshoot of these

PHOTO: GARY KIEFFER

Sen. Dan Quayle (R-Ind.) wants to ease restrictions on the formation of PPOs.

plans—benefit accounts that give employes some portion of the money not used to pay for medical expenses—is under a cloud. The Internal Revenue Service has announced that it does not consider programs that distribute a portion of unused medical funds to employes in cash to be insurance.

The IRS pronouncement, which will be followed by public hearings July 26, has stilled all activity related to such flexible benefit plans, says Paul Mack, assistant director of marketing at CIGNA Corporation. But other flexible benefit plans are still being designed.

One of the more attractive proposals being explored by businesses nationwide is the paid provider organization. The PPO—whose sponsor may be an insurance company, another health plan administrator, a group of physicians or a hospital—supplies physicians with a pool of patients in return for a discounted rate on charges.

Patients have the option of using a doctor outside the PPO, if they choose, and receiving the usual health insurance benefits. But when they use PPO practitioners, patients are spared most out-of-pocket expenses. The doctors are guaranteed prompt payment—usually within 20 days—and careful oversight by the PPO sponsor guards against overuse of medical facilities.

Signs of interest in PPOs are popping up across the country:

- Blue Cross and Blue Shield organizations last year established six PPOs. By the beginning of May there were 11 such PPOs—two in California and one each in Arizona, Florida, Maryland, Minnesota, Missouri, Nevada, Ohio and Virginia. The total is expected to rise to 35 by the end of 1984.
- Private insurance carriers are moving into the PPO market. Prudential Insurance Company, Metropolitan Life Insurance Company, the Equitable Life Assurance Society, CIGNA Corporation, Aetna Life Insurance Company and John Hancock are all establishing programs.
- Legislation has been proposed by Rep. Ron Wyden (D-Ore.) to strike down state barriers to the formation of PPOs—laws that prevent insurers from influencing a patient's choice of provider or that restricts them from negotiating lower rates with hospitals.
- Sen. Dan Quayle (R-Ind.) has introduced a similar bill in the Senate. Under the Quayle version, agreements by insurers with hospitals or physician groups could discriminate only on the basis of economics or quality of medical care. His bill would also permit subscribers to Medicare Part B—the optional coverage for physicians' services, as distinct from the automatic Medicare hospital coverage—to join PPOs.

"Cost control solutions must be developed that change the incentives to consumers, hospitals and physicians without applying burdensome sanctions, which will only lead to the deterioration of our health care system," Quayle says.

Although many business people are examining the PPO idea, problems like the restrictive state laws are slowing its development. Another problem: fear of lawsuits under both antitrust and medical malpractice laws.

At a recent U.S. Chamber of Commerce symposium, Jan Peter Ozga, director of the Chamber's Clearinghouse on Business Coalitions for Health Action, noted that there was some concern on the part of employers that they might be named as defendants if an employe claimed malpractice by a PPO physician.

The concern about possible antitrust suits arises since employers are attempting to (1) limit the providers for a group of employes and (2) negotiate a lower rate of payment than that charged the public at large.

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and the Justice Department have said that antitrust laws do not preclude development of PPOs. The FTC issued a statement last June giving its blessing to establishment of a PPO by a New Jersey firm.

Signing up participating physicians and contracting with insurers does not constitute price fixing, the FTC said, "because each provider would continue to set his or her own charges for services independent of other providers."

EVEN AS health insurance costs have risen rapidly, employers have been buffered with relatively low rates on their property-casualty insurance premiums—until now.

Many experts predict that by the end of this year, property-casualty insurance rates will also begin to rise. Donald Jordan, executive director of the National Association of Insurance Brokers, points out that reinsurance, under which insurers share a major risk, is beginning to show some firming in prices, as are rates for commercial automobile insurance.

Interest earned on insurance companies' investments has kept property insurance rates down. With competition among insurers heavy, rates dropped below costs; only investment earnings permitted the insurers to show profits.

But interest rates on investments have fallen somewhat, and many companies now may be under-reserved—that is, they have too much money tied up in long-term investments (which pay higher interest) and not enough money readily available to pay claims.

Sean Mooney, an Insurance Information Institute economist, predicts that pressures will begin to build for rates that cover costs.

Underwriting losses last year totaled approximately $12.2 billion, an 18.4 percent increase over 1982. On top of this, many companies paid large amounts in claims in the first quarter of 1984 because of severe storms. CIGNA Corporation paid $8 million in claims associated with the storms of late March, and Aetna Life & Casualty Corporation announced $12 million in payments arising from March storms and tornados.

"A lot of companies are experiencing a negative cash flow," says Jordan of the brokers' association. "Sooner or later they will have to act."

No one is sure what effect further deregulation of banking could have on business insurance costs. The administration is pushing for broad proposals that would allow banks to underwrite and sell insurance, as well as become real estate agents and sell several types of securities.

If Congress decides to act, chances are that it will design legislation to (1) define what institutions are covered by federal banking laws and (2) expand powers of bank holding companies.

PHOTO: GARY KIEFFER

Don Jordan: "A lot of companies are experiencing a negative cash flow."

Banks say that if they are permitted to enter the market, they will provide competition that will lower insurance rates. Insurance brokers counter that banks could tie credit to insurance sales—thereby taking business from brokers—and then charge higher prices. Loan-hungry small businesses would be particularly vulnerable to pressure from banks seeking insurance sales, brokers say.

The Professional Insurance Agents Association says, however, that it is convinced that further banking deregulation will not be approved by Congress this year. Members of the association met individually with 112 members of Congress in March.

Similarly, although product liability legislation favored by business was approved by the Senate Commerce Committee, the chances of getting legislation through both houses of Congress this year appear minimal. The Senate bill would set a federal standard for determining liability when a person is injured while using a manufactured product.

Business people want a national standard because they say manufacturers never know now when a state judge will declare them liable to pay damages for injuries not previously believed to be their responsibility.

The insurance industry envisions similar problems in the thorny area of compensation for injury due to environmental pollution and asbestos-related diseases. Sen. Robert Stafford (R-Vt.) is continuing to push for legislation in the Senate, as is Rep. James Florio (D-N.J.) in the House.

But the Reagan administration insists that legislation creating a broad compensation system not be enacted without realistic estimate of its cost. Michael J. Horowitz, counsel for the Office of Management and Budget, recently told an American Insurance Association seminar that "the idea of enacting a new program without costing it out, is, as a matter of principle, unacceptable."

A program that is small and attractive now, he argued, could soon become an expensive entitlement.

A HOUSE ENERGY and Commerce subcommittee has turned aside a proposal by Florio to increase the $1.6 billion in the Superfund program sevenfold. The program is designed to clean up hazardous waste sites. Florio's proposal would expand it to include a system of federal compensation for "victims" of environmental pollution.

The subcommittee has approved renewal of the current Superfund program. The law authorizing the program does not expire until the end of 1985, and the administration would prefer that renewal be considered when Environmental Protection Agency studies of the program are completed in December, 1984.

Insurance industry experts see grave problems in the proposal for "victim" compensation. Essentially, insurers say that they should not be held responsible for a company's actions taken before its insurance policy was issued or for actions taken by other companies.

They warn that if legislation were to hold all who used a disposal site equally liable for damages, even when a particular company was blameless, it would push premiums so high that many firms would have to go without insurance. □

PHOTO: TIM WRIGHT—GAMMA LIAISON

This year's severe storms have spawned heavy claims for losses.

The Lessons of Lloyd's

By Richard E. Stewart

The "underwriting room" at Lloyd's: face-to-face deals.

PHOTO: ADAM WOOLFITT—WOODFIN CAMP

LLOYD'S OF LONDON is the world's most famous and, to outsiders, most mysterious insurance market. In a business generally regarded as dull, Lloyd's has enjoyed a reputation for glamour (insuring Betty Grable's legs) and daring (insuring moon shots).

In the last few years Lloyd's has had a different kind of publicity—exposures of funds diverted and profits and losses hidden, disgrace of respected figures, public recrimination. What happens at Lloyd's—the world's largest reinsurance market—affects all of us, because reinsurance is the way exposures to huge property or liability loss are spread across the financial resources of the world.

Many of the good things of modern life require huge investments, and when they go wrong they cause huge damage. Without insurance they would not get done. Without reinsurance they would not get insured.

Alternatives to Lloyd's exist and are growing. But Lloyd's is still so big and so central that its future is of concern to economic development and commerce everywhere.

The public troubles of Lloyd's began when Alexander & Alexander, a large and publicly held American broker, bought a large Lloyd's broker and underwriting manager.

Alexander & Alexander conducted routine audits of the Lloyd's broker after the acquisition. The audits revealed the diversion of funds and hiding of profits and losses—a sad chapter in the history of an old institution.

Lloyd's began as a coffee house in 1648; it is a place, not a company. At Lloyd's, in one vast "underwriting room," brokers carry insurance proposals ("slips") around the floor to hundreds of cubicles ("boxes"). In each box sit an underwriter and his assistants.

On any risk of consequence or difficulty, especially when seeking the first ("lead") underwriter's participation, an experienced broker will deal face to face with an underwriter recognized as an expert in such risks. If the lead underwriter accepts a portion, other underwriters will be inclined to follow.

The underwriter at Lloyd's accepts risks on behalf of syndicates of individuals ("names"). Thus, for centuries, Lloyd's has been a marketplace with three participants—brokers, underwriters and names. Until quite recently, the same individual could play all three roles and could also own part of a company that shared in the risks. Rules were few. Crucial matters were governed by shared understanding.

IT COULD not last. The economic recovery that followed World War II generated huge demands for insurance. Lloyd's premiums rose from $190 million in 1946 to $820 million in 1966 and to $5.5 billion in 1980. The number of names grew, too, from 2,422 in 1948 to 21,601 in 1982.

Still the informality of the club persisted, and with it the assumption that everybody would understand how things were done. Anyone who has managed a business with an informal, collegial style through a period of rapid growth does not need to be told what was around the corner.

In the 1970s there were warning signs. Lloyd's was a victim of some tattered insurance scams, generally involving skimming of premiums through repeated reinsurance transactions, leaving the last underwriter holding the bag of a lot of risk for a small premium.

In the late 1970s, several Lloyd's syndicates lost hundreds of millions of dollars by guaranteeing the residual value of mainframe computers when they came off lease. It was a silly bet against International Business Machines' ability to make its own product line obsolete. More important, it was a bet against one of Lloyd's few formal and long-established rules—no financial guarantees. From those two episodes, plus others, the Lloyd's establishment drew the accurate conclusion that the club style and mingled roles of the old, small Lloyd's might no longer suffice.

In 1980, a respected special commission issued the so-called Fisher Report.

Its first conclusion was that Lloyd's needed to act more like a financial institution and less like a place that once served coffee. That led to Parliament's creation of the Council of Lloyd's, most of whose members actively or passively participate in the Lloyd's market.

A second conclusion was that the most obvious potential conflict, the common control of brokering and underwriting, had to be solved structurally by separating the two kinds of firms. Parliament also enacted that recommendation.

The Fisher reforms were enacted before the disclosures following the Alexander & Alexander audits. Those disclosures were of underwriters' siphoning profitable premiums out of their syndicates and into reinsurers they themselves owned—abuses of trust and of outside investors. The pre-Fisher disclosures had been of abuses of common control of brokers and underwriters.

The lessons are clear and quite general. Growth puts more stress on an organization than its insiders feel or respond to. Handling other people's money imposes severer duties than handling one's own. Place temptation before a small group raised to resist it and they probably will; at the very least they will expel from their club those who do not. Keep adding to the temptation and inviting people in, and eventually some will embrace the temptation.

Lloyd's has learned the hard way that it will have to become a more structured institution with more explicit rules, more disclosure and more independent regulation.

Does that mean it's over for Lloyd's? Not at all. What made Lloyd's great was inventiveness, the spirit of risk taking, the efficiency of spreading risk from a single place and the efficiency of professionals' conducting difficult transactions face to face. All those good things can still be done with a rulebook expressing in print what was once a code of honor carried only in the heart. □

RICHARD E. STEWART, *a New York consultant and expert on insurance, is a former New York State insurance commissioner and a former president of the National Association of Insurance Commissioners.*

Wrapping VDTs in Red Tape

The computer industry fights curbs on office use.

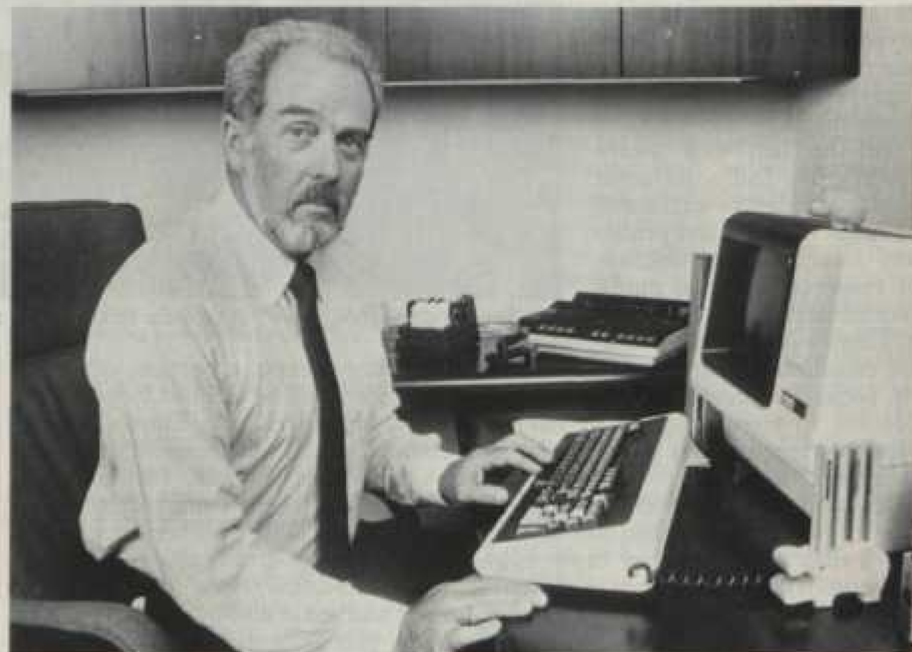
By Mike Lewis

THE COMPUTER industry is moving to counter efforts in Congress and a number of state legislatures to impose restrictions on employers in connection with video display terminals in the workplace.

A variety of legislative proposals to regulate work conditions for use of word processors and computers has been advanced on the ground that VDTs increase risks of eyestrain.

Proponents of such legislation "make a presumption that looking at a visual display is different from doing other close work with the eyes and that it is worse," says Vico E. Henriques, president of the Computer and Business Equipment Manufacturers Association. Henriques is a leader of an industry effort to have computer equipment treated like other office machinery.

The most serious allegation against video displays—that they produce harmful radiation—has been put to rest by a series of scientific and medical studies.



Vico E. Henriques is a leader in efforts by the computer industry to counter legislation that would limit office workers' use of video display screens.

Display terminals emit far less nonionizing radiation than allowed by federal standards, according to a 1981 study by the National Institute for Occupational Safety and Health. And the amount of ionizing radiation—X-rays are a common example—emitted from video displays is actually less than the background radiation that people in general encounter from such ordinary sources as rocks.

In answer to another allegation, the American Academy of Ophthalmology reports that visual displays present "no hazard to vision."

Labor unions, however, have told employers and legislators that working with VDTs presents a "unique job condition." A terminal operator uses middle-distance vision for reading the screens of computers or word processors, and he or she may need that vision corrected but not realize it, the unions contend.

As a result, they say, employers should pay for eye examinations for such workers. Legislation on VDTs that has been proposed in a number of states would require employer-paid optometric testing.

Computer industry officials, who point out that about 30 percent of American workers have uncorrected visual problems—they should be wearing eyeglasses, or they need new prescriptions—say computer operators do not face a unique problem.

If a proposed state law required every employer to pay for eye exams for all employes—no matter what type of equipment they worked with—"we would not be involved at all," says Henriques. The singling out of the computer industry, however, has prompted the industry's opposition to the VDT-workplace legislation.

LEGISLATION regulating use of VDTs has been proposed in California, Connecticut, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New York, Ohio, Rhode Island and Wisconsin. The measures call for differing combinations of regulations to mandate employer-financed eye exams, prescribe kinds of furniture allowed for use with video displays, set standards for lighting or machine designs, and limit the length of the workday.

Bills would restrict a worker to four or five hours a day of using a computer or require breaks every hour.

"We don't think the state ought to get involved" in restricting terminals' use, Henriques says. One of the problems manufacturers find with such regulation is that it would generalize from typical situations that might not apply to specific uses of computer monitors. Spokesmen for the computer industry and local business groups, such as chambers of commerce, have testified before congressional and state legislative committees explaining their position on the issue. And the industry is developing positive approaches.

"We're trying very hard to educate people about ergonomics," the relationship of man to machinery, says Henriques. Ergonomics can involve such computer-related topics as intensity and direction of lights, proper angle of vision, and suitable chairs and computer stands.

To advance knowledge in this area among personnel directors and others at companies that use computers, the Computer and Business Equipment Manufacturers Association and a number of other groups have formed the Coalition for Work Place Technology. The coalition will launch a national education campaign in the fall.

Already, a number of computer manufacturers attach suggestions for proper lighting and furniture to their products. The key, says Henriques, is to get people to realize that a computer "is just another piece of office equipment." □

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Egypt

The Nile's waters and the green grass of athletic clubs enhance the beauty of Cairo.

Egyptian handicrafts like this plaque of pharaonic design have great potential for export to the United States.

Another product of Egypt's numerous highly skilled artisans: a silk-warp, cotton-weft Nain rug. Such rugs are exported to European countries.

Cut flowers could be exported to the United States on a daily basis, as they are to Europe. Here: bird-of-paradise flowers.

Egypt Focuses on Exports To U.S. and World Markets

EGYPT, currently in the third year of a new five-year development plan, envisions an average annual rate of growth of nearly 8 percent, with all major sectors expected to participate.

The plan projects the commodity sector to grow at an 8.6 percent rate, productive services at 6.5 percent and social services at 7.7 percent during the 1981 through 1986 time period.

Under the plan, investment outlays would amount to 35.5 billion Egyptian pounds, of which L.E. 27.2 billion would go to the public sector and L.E. 8.3 billion to the private sector.

Nabil Sadek, economic minister of the Egyptian Embassy in Washington, points out that Egypt is trying to achieve a substantial structural transformation of its economy through a large investment effort directed at export expansion.

Great hope is placed on the future of the industrialized sector. The nation has an excellent supply of skilled labor, technicians and managers. And it has a strategic location and cultural links with two of the world's fastest growing markets for manufactured goods—the Middle East and Africa. In 1980, countries in those areas imported more than $68 billion worth of manufactured goods—14 percent of world imports. This suggests considerable potential for development by Egypt of manufactured exports.

According to Sadek, commodity exports are expected to continue their growth in the current five-year plan, with fuel products followed in value by cotton, semifinished goods, manufactured products and raw materials.

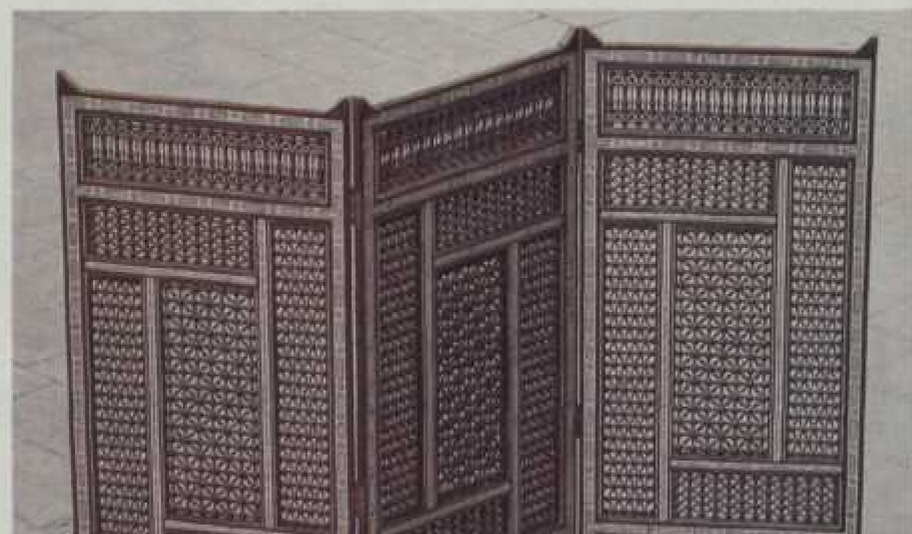
The agriculture sector remains a top priority to meet growing domestic needs and export opportunities. The private sector and cooperatives are planning to reclaim over 636,000 acres of land. The public sector also aims at completion of the construction of the NASR and Nubariya canals, which are used for both transportation and irrigation. These canals and other irrigation projects, plus rehabilitation of existing systems, will enable Egypt to increase exports of cotton, fruits (citrus, mangoes, guava), cut flowers and vegetables.

Egypt's industrial sector is large and fast growing. It has been a privileged sector of the economy in that its share of investment has generally exceeded its share of the gross domestic product. The sector's share of GDP was 14 percent in 1981, but it accounted for about 29 percent of total investment during 1977-81. The bulk of this investment went into modernization and rehabilitation of existing plants. Since the liberalization of the economy in 1973, both public and private industries have grown rapidly. Private industry has grown at an average annual rate of more than 12.7 percent. Its share of industrial investment is estimated to have increased from 5 percent in 1974 to about 31 percent in 1981.

The public sector's performance has also been favorable, with an annual growth rate between 1974 and 1980 of 7.1 percent. Manufacturing industries' growth rate of value added in recent years has been more than 12 percent, compared with 7 percent for the whole industrial sector.

In the past, the manufacturing sector was geared to import substitution, and it depended on the domestic market. Until recently this marketing dependence was not considered a problem, because large foreign exchange receipts flowed to the country from petroleum sales, revenues from the Suez Canal, workers' remittances from abroad, tourism and foreign capital inflows.

However, as inflows of these receipts began to level off, increased exports from nonoil merchandise became impor-



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TELEXES: 92040 & 54009 GHAZL UN

tant to maintain the objectives of the development plan and the 8 percent growth rate of GDP.

Sadek says a number of commodities can be imported to America less expensively from Egypt than from other sources. In some cases, these commodities would be introduced to the American consumer for the first time; in others, the level of imports could be increased. There are opportunities for American investors in the production of such commodities, not only for export to America but also for consumption in the Egyptian markets or for exports to Egypt's neighbors.

Cotton textiles and apparel. The United States is the largest market in the world for cotton manufactures and apparel. Total U.S. imports in 1983 reached about 7.4 billion square yards, of which about 45 percent came from Korea, Hong Kong and Taiwan. Total

An Egyptian craftsman took pride in making this copper tray that can be used as a wall plaque. It is inlaid with brass and silver.

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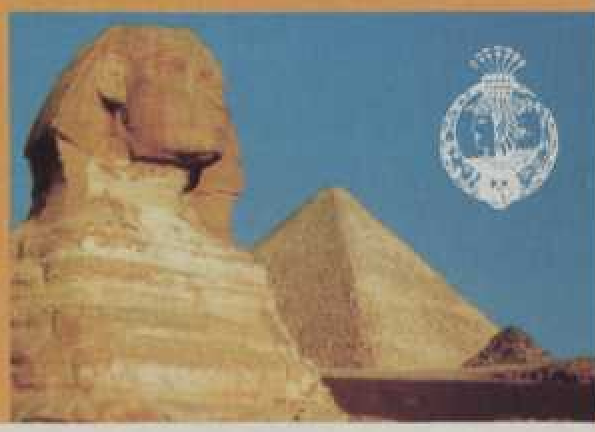

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51 Affiliated Companies

Name of Sector	*Companies*
1. Food Sector	18
2. Housing and Reconstruction	9
3. Finance and Banking	10
4. Textile Sector	2
5. Services and Transport	6
6. Trade	1
7. Tourism and Hotels	5

Affiliated Banks
1—Bank Misr Lebanon
2—Misr International Bank
3—Misr Romanian Bank
4—Misr Exterior Bank

Joint Affiliated Banks
5—Egyptian Bank for Export Development
6—Suez Canal Bank
7—Egyptians Abroad Co. for Investment and Development
8—National Bank for Development
9—Joint Arab Investment Corporation
10—The Egyptian Workers Bank

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BANQUE MISR—PARIS: 190 AV. CHARLES DE GAULLE, 92523 NEUILLY CEDEX TELEX: BANISR 613571

imports from Egypt did not exceed 61.5 million square yards, or 0.82 percent of total U.S. imports.

Therefore, Egypt is neither a risk nor a danger to the U.S. textile industry, and the increase of its exports will only help alleviate the existing large imbalance in its balance of trade vis-a-vis the United States. (In 1982 total exports from Egypt to the United States were about $500 million while imports from the United States reached about $2.7 billion, an amount exceeding total U.S. aid to Egypt by about $1.7 billion.)

At present Egyptian exports to the United States are concentrated in five categories: cotton yarn, sheeting, twill and satin, duck, and cotton shirts. The Egyptian textile industry has the potential to increase its production in both the private and the public sectors (the latter has 80 percent of the productive capacity).

Any assessment of the potential of the Egyptian textile industry for expanding its exports to the United States should recognize that the combination of lower Egyptian labor costs compared with other countries and growing acceptance of Egyptian textile and apparel products have made Egyptian producers (in both the private and the public sectors) conclude that their best interest lies with finished material and products.

This fact, coupled with a competitive cost advantage that some sectors of the textile industry enjoy, indicates that opportunities for Egypt to expand its textile and apparel exports to the United States lie in over 40 categories of imports rather than in the five categories that are actually exported to America. These categories include men's, women's, boys' and girls' under and outer garments; linens for beds; tablecloths; curtains; tulle; terry toweling; tapestries; carpets; rugs; handkerchiefs; shawls; and scarves.

A major textile exporter is Misr Spinning and Weaving Company of Mehalla El-Kubra. It annually exports around $10 million worth of textiles to the United States out of a total of some $25 million worth exported by Egypt to the American market.

El Motaz Abd El-Maksoud, director general of the firm, says that its excellent products' quality comes not only from the use of Egyptian cotton but also from more than 50 years of textile manufacturing experience. Throughout the last two decades, the company has been implementing a modernization and rehabilitation program, with new machines installed and modern technology implemented. Part of the new machinery was imported recently from the United States, financed primarily by the Agency for International Development program.

Abd El-Maksoud adds that yarns of 100 percent cotton or blended with synthetics; cotton fabrics; household products such as towels, bed sheets and covers; and apparel are the company's most important exports.

"We know that growth in export sales depends on a firm commitment to a long-term supply with high service and quality levels," he says. "We are ready to cooperate with American importers and investors, and adapt our products according to consumer tastes and preferred design."

It is important to mention, he adds, that no matter how large and important the increased exports may seem or loom in the Egyptian economy, they would represent a very small figure in the total volume of U.S. imports.

One of the more recent innovations in the textile industry has been the formation of Misr El Amria Company for Spinning and Weaving. Formed in March, 1983, as a joint stock company, under Investment Law 43 of 1974, it will be involved in spinning, weaving, dyeing and processing ready-made garments. When all phases are in operation, it is estimated, the company's activities will provide jobs for 12,000 people at its 3,000-acre complex in El Amria near Alexandria.

Spinning production reached full operation this spring, and weaving production is slated to reach full capacity by the end of 1984. Dyeing and processing are scheduled to begin during 1984 and

Mostafa El-Said
Minister of Economy and Foreign Trade of Egypt

Producing furniture like this elegant drawing room suite of gilded wood (the tabletop is of marble) required handwork that was skillful, indeed.

Egypt

Nabil Sadek
Economic and Commercial Minister in the Embassy of Egypt

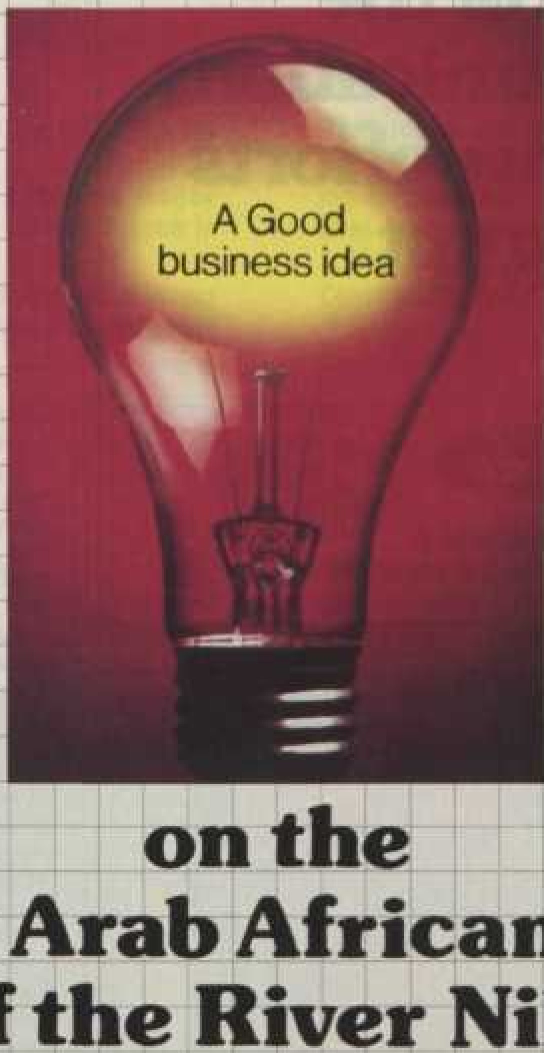
reach full-scale operation by 1985. Household goods production is to begin in mid-1985, and men's, ladies' and children's apparel production is scheduled to start in 1986.

Annual production goals for exports are 11,748,000 meters of textiles, 4,265,000 ready-made garments, 2,800,000 terry cloth towels and 925,000 sets of other white goods. The company, one of the largest in the Middle East, provides high quality products that match the highest international standards, with suitable prices.

The company's total yearly capacity of ready-made garments and sets of sheets is 16.3 million pieces, and its spinning and weaving units have a capacity of 23,000 tons and 65.7 million meters respectively. The best and most modern machines are used: 12099 open end rotor and 31200 and 80080 ring spindles, producing thread average No. 14.8, 22.4 and 44.47 respectively; 800 Sulzer, 28 Gusken Valvet looms and 64 Jacquard Verdol. For more details, Banque Misr Investment Center, 151 Mohamed Farid Street, Cairo, Egypt should be contacted—or the El-Amria Company for Spinning and Weaving, 13 Salah Salem Street, Alexandria, Egypt.

Egyptian-made rugs go back to antiquity. This one is a product of today.

Shoes (nonrubber). The shoe industry in Egypt is totally dominated by the private sector, which has the potential and ability to export hundreds of thousands of pairs of high quality, less expensive shoes to the United States. In the past, Egypt exported millions of dollars' worth of shoes to the Eastern Bloc



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Egypt

El Motaz Abd-El-Maksoud
Director General, Misr Spinning and Weaving Company

under trade agreements that are no longer in effect.

Egyptian exports are now estimated to be a little less than 1.5 million pairs annually. The production is of high quality and is mostly handmade. Egypt produces and exports all kinds of shoes for men, women, boys and girls.

Cut flowers. Large quantities of cut flowers are now exported to Europe on a daily basis. Tens of thousands of roses, carnations, bird-of-paradise flowers and other types of cut flowers can be exported to the United States on the same daily basis. The private sector is eager to participate with U.S. partners in the production of all varieties of cut flowers as well as to meet market standards at competitive prices.

Carpets and rugs. This industry dates back hundreds of years. In some European museums, there are priceless remnants of tufted carpets exquisitely woven in Egypt during the Roman period. Cairo became famous as a rug capital during the Islamic period, and carpet manufacturing flourished in the Mamelukean period. European royalty imported Egyptian carpets and tapestries to embellish their opulent palaces.

Today Egypt has a thriving carpet industry, specializing in Kelim-woven and Persian tufted carpets. The carpets are made in both the private and the public sector, with the major producers in Cairo, Alexandria and Mehalla El-Kubra. Handmade silk and wool carpets and tapestries are produced and exported to European countries.

Long-term contracts can be signed to export to U.S. markets, and American importers are welcome to visit production facilities and see for themselves the quality and design in this flourishing industry.

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furniture is another excellent commodity. The industry in Egypt is dominated by the private sector. Experts say Egypt can produce furniture better and less expensively and could concentrate on exporting old-style furniture, such as of the French Louis XV and XVI periods and Old English styles. These types of furniture need highly qualified workers and lots of handwork and carving. Egypt has exported millions of dollars' worth of furniture.

Wine and brandy. Egyptian wine is already exported to European countries. It could be exported to the United States in generic form, such as white, red and rosé, or under a specific brand, such as Kleopatra and Ganaklise. Egyptian exporters and producers want to arrange direct contacts and regular visits with American importers and representatives of the wine industry.

Eager to achieve the current five-year plan's objectives of development, Egypt warmly welcomes U.S. investment and joint ventures to meet domestic demand and export potential.

An example of the type of joint venture sought is a recent one between Banque Misr and International Multifoods Corporation, an American firm. The U.S. firm owns 25 percent of Misr Foods Company and the bank the remaining 75 percent. The original issued capital totaled L.E. 2.1 million. When production begins this year, a modern plant complex will produce such pasta products as macaroni as well as Egyptian and European breads, rolls and sweet goods.

Pasta capacity in the first year of operation is estimated at 25,000 tons. It is expected to reach 50,000 tons in the second year, 50 percent of which could be exported.

Egypt offers excellent export prospects in all types of production over varying periods of time. Over the short term, Egypt can export products that it actually produces. In the medium term, industry could be in a position to export a number of new products. Says Sadek: "We are more than willing to discuss and cooperate in implementing any suggestions presented to improve cost-effectiveness and technical capabilities."□

Acknowledgments

NATION'S BUSINESS expresses its appreciation to Minister Nabil Sadek, head of the Egyptian Embassy's Commercial and Economic Office in Washington; Farouk Shakwear, head of the Egyptian Export Promotion Centre; Soliman Gommaa, chairman of Egypt's National Authority for Foreign Trade, and El Motaz Abd El-Maksoud, director general of the Misr Spinning and Weaving Company of Mehalla El-Kubra, Egypt.

Their cooperation and assistance made this special section a reality.

Thanks go as well to Chris Albright, senior vice president, Middle East/Africa of Pepsi-Cola International.

Photos for this section were provided by the Egyptian Export Promotion Centre, Cairo, Egypt, and John O. Riddle—Uniphoto.

A New Look at Egyptian Exports

By Farouk Shakwear

Egypt is rich with a variety of quality products. If we add to this its geographical situation, its excellent connections with other countries and its cooperative society, we can conclude that all these factors license it to be a successful exporting country.

While pursuing the strategy of maximizing the benefits that Egypt could derive from nonrenewable natural resources like petroleum and invisibles such as tourism, and earnings from the Suez Canal, the country has also embarked upon export expansion and diversification.

The Egyptian Export Promotion Centre was established in November, 1979, under the purview of the Ministry of Economy and Foreign Trade, with its head office in Cairo.

It is operated by a board of directors composed of selected representatives from government and business sector organizations.

The centre's objectives are to:

A. Assist importers to make the right business contacts with Egyptian exporters.

B. Provide information about the methods of doing business in Egypt; export duties and control regulation; price quotations; banks, etc.

Farouk Shakwear is director of the Egyptian Export Promotion Centre.

C. Establish a system for compiling, arranging and disseminating national and international trade and marketing information that serves the Egyptian export sector at home and abroad.

D. Carry out studies and analysis on export potentialities and on the absorbing capacities of foreign markets, with the aim of collaborating in drawing up an export program that is within the framework of the State General Plan.

E. Prepare technical and organization recommendations required for the development of production and elimination of obstacles in the way of exporting.

F. Establish a training system to provide the Egyptian export sector with improved services.

G. Cooperate with concerned authorities by submitting marketing or export studies or services required from the centre with consideration to developing and stimulating Egyptian exports.

H. Collaborate with ITC, EEC and other international organizations in developing international, regional and bilateral cooperation in the field of Egyptian export promotion.

The Egyptian Export Promotion Centre (EEPC), 62 Mossadek Street, Dokki, Cairo, Tel. 700037 - 700045, Telex 93321 EEPC UN welcomes any inquiries and is ready to answer your questions.

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Telex: 92232 & 357

3. Arab Foreign Trade
12, Youssef El Guindy St., Cairo
Telex: 92240 — ARAPX 23022

4. Misr Import & Export Co.
6, Adly St., Cairo
Telex: 92251 & 92385

5. General Trading & Chemicals Co.
26, Sherif St., Cairo
Telex: 92246 / 93602

6. The Engineering General Co.
9 / 11 Oraby St., Cairo
Telex: 92249

7. The Tractor & Engineering Co.
18, Emad El Din St., Cairo
Telex: 92247 / CROCOL UN 92286 / TECO UN

8. Misr Car Trading Co.
L2 Abdel Khalek Tharwat St., Cairo
Telex: 302 Miscar UN 22362
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9. El Wadi Export Co. For Agricultural Products
17, Abdel Salam Aref St.,
Telex: 92253

10. The Nile Co. For The Export Of Agricultural Crops.
19 El Gomhouriya St., Cairo
Telex: 92241 / 23426

11. El Nasr Co. For Dehydrating Agricultural Products
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Telex: 92965

12. Wood Trading Co.,
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Telex: 54309 FABAS

13. Egypt Free Shops Co.
2, Mamar Behler St., Cairo
Telex: 92479 FEHOP UN

Egyptian Imports Can Be Duty-Free

AMERICAN BUSINESSES interested in importing products from the Arab Republic of Egypt are offered an inducement by their own country that could positively affect the decision—those imports may be eligible to enter the United States duty-free.

Egypt, as a developing nation, qualifies as a designated country under the Generalized System of Preferences. GSP is an ongoing program of unilateral tax preferences granted by the United States to certain developing countries to assist in their economic development.

Currently, the United States recognizes 140 countries and territories as being in that category and grants duty-free treatment on approximately 3,000 products. Such imports, according to the Office of the United States Trade Representative in Washington, account for only 3 percent of total U.S. imports, but they are significant to the economy and growth of the designated countries.

To find out if a particular product is eligible, interested importers can contact the U.S. Commissioner of Customs, U.S. Customs Service, Washington, D.C. 20229.

Generally, these are the requirements for an import from Egypt to qualify for GSP treatment and duty-free entry:

1. The product must be included in the GSP list.
2. The importer must request GSP treatment, and the product must be imported directly into the United States from Egypt. The country of origin—in this case, Egypt—must provide a certificate of origin.
3. Certain value-added requirements must be satisfied. The sum of the cost or value of materials produced in Egypt must equal at least 35 percent of the appraised value of the article at the time of entry into the United States.

The stipulation that the merchandise be imported directly means that the articles must either be shipped directly from Egypt to the United States without passing through the territory of any other country or, if not, that the merchandise must not have entered the commerce of any other country while en route to the United States.

Eligible articles of merchandise shipped from Egypt to this country through an Egyptian free trade zone will qualify for GSP treatment if the merchandise does not enter into the commerce of Egypt. While in the free trade zone, the products cannot undergo any changes other than those deemed necessary to ensure preservation of their identity and condition as it was when they were introduced into the zone. Per-

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10-LOME	25-BEIRUT
11-COTONOU	26-DAMASCUS
12-LAGOS	27-AMMAN
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14-DOUALA	29-TEHRAN
15-N'DJAMENA	30-PARIS

SPECIAL ADVERTISING SECTION

mitted are such operations as sorting, grading, labeling, testing, packing and unpacking, affixing marks or other signs.

While within the trade zone the merchandise may be purchased and resold, other than at retail, for export. However, in such cases, two certificates of origin are required by U.S. Customs. One must come from Egypt's General Authority for Export Promotion and the other must be obtained from the Egyptian authority that operates the free trade zone.

Paper work requirements under the GSP are relatively simple. U.S. authorities only require a Certificate of Origin Form A for duty-free entry of merchandise not moving through a free trade zone. This form must be completed by the exporter, who handles all the processing with the Egyptian government agencies.

The form is the one developed and approved by the United Nations Conference on Trade and Development for shipments valued at $250 or more. GSP-qualified merchandise valued at less than $250 may be imported duty-free without a certificate.

Of concern to any potential importer, of course, is the reliability of the source and the import rules. Considering the current level of imports from Egypt, there appears to be no danger that there will be any change in status with regard to the GSP, although the U.S. government views the GSP as a program designed to offer new industries in beneficiary developing nations a preferential advantage in the U.S. marketplace and to help them become competitive.

A country is held to be competitive in a particular product when U.S. imports of that product from that country exceed $57.7 million annually or account for 50 percent of total U.S. imports of the product from all sources. The 50 percent provision is waived for products that were not produced in the United States on Jan. 3, 1975, and it may be waived if total U.S. imports of the particular product were less than $1.37 million in 1983.

These figures are adjusted annually to reflect changes in the U.S. gross national product. Should the limits be reached during the year, the GSP eligibility continues for the remainder of the year. At this time there are no foreseeable problems with Egyptian products in this regard.

Though the United States has nearly 3,000 products on its eligibility list, the door is not closed. The list undergoes annual review, and interested parties may petition the Office of the U.S. Trade Representative to request modifications. Petitions must be submitted prior to June 1 to be considered for the annual product review.

The petitions are subject to public hearings and full review by the major executive departments dealing with U.S. trade policy.

In addition, the Office of the U.S. Trade Representative, which administers the GSP, has established an information center to answer inquiries. When it lacks the expertise or knowledge, it refers the questions to pertinent federal agencies manned to deal with specialized trade problems. Inquiries should be sent to the attention of the GSP Subcommittee, Office of the U.S. Trade Representative, Room 316, Washington, D.C. 20506. □

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Trading Companies Are Major Exporters

EGYPT'S National Authority for Foreign Trade is a key factor for business people who want to buy from or sell to Egypt.

In an exclusive interview, Soliman Gommaa, chairman of the authority, explained its functions and operations.

It is a holding entity under which 13 public sector Egyptian trading companies operate in the field of foreign trade. Through board committees, the authority supervises the export of some of the country's traditional agricultural products, such as fresh onions and garlic, potatoes and peanuts. To further demonstrate the importance and magnitude of the authority's operations, during the last two years, over 21 percent of Egyptian imports were funneled into the country through its trading companies.

In addition to 70 percent of total agricultural exports (except cotton) as well as over 22 percent of Egyptian commodity exports, the authority and its 13 companies provide employment to more than 22,000 workers. With a total capitalization of over 33 million Egyptian pounds, the authority operates through 38 offices in many Arab, African and European countries.

The authority's total volume of operations in 1982-83 was more than L.E. 2.4 billion, L.E. 400 million over the previous year.

The goals of the authority are:

1) To increase Egyptian exports.

2) To avoid sharp and unpredictable changes in the volume of exports through the diversification of exportable commodities—so as not to rely entirely on one commodity or one economic sector—and to introduce industrial, engineering and mining products to the lists of Egyptian exports.

Soliman Gommaa
Chairman, Egypt's National Authority for Foreign Trade

3) To encourage the export of finished or semifinished commodities, rather than raw materials.

4) To achieve a balance in the geographical distribution of Egyptian exports and reduce dependence on any single market or country.

Gommaa summarizes the authority's goals in the 1980s by saying that it will exert maximum efforts to continually increase and diversify Egyptian exports, with more emphasis on handicrafts. In addition, it will increase its representation in foreign markets by opening additional overseas offices and encourage participation of modern and traditional Egyptian products in international fairs.

And, Gommaa says, the authority hopes Egyptian agricultural commodities like fruits, vegetables and grains can benefit from advanced technology of the United States and Europe.

Egyptian companies are ready to enter into joint ventures in manufacturing for exports, especially exports of nontraditional agricultural commodities. To do so, Gommaa says, Egypt needs the right specifications and technical assistance.

Egypt produces a large number of nontraditional products that could be exported to the United States or exports of which could be increased. Examples include carpets, rugs, furniture, sponge mattresses, wines and spirits, handicrafts and Khan El-Khalil products, pharmaceuticals, roses, T-shirts and cotton products, and agricultural products, such as fruits, juices, etc.

The Egyptian National Authority for Foreign Trade, 23 Talaat Harb Street, Cairo, Egypt, Tel. 744239 - 754116, is ready to exert its maximum efforts to guide American importers, providing them with all needed information.

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Today, the Arab American Vehicles plant in Heliopolis is one of the most modern assembly facilities in the Middle East. AAV workers build some of the world's finest vehicles, like the Jeep CJ-7, CJ-8, Wagoneer and Jeep Trucks. In addition to filling vehicle requirements for the Ministry of Defense and commercial markets, AAV has assisted in developing Egyptian manufacturing companies to supply nearly 50% of the parts used in building Jeep vehicles. The supplier industry is now a vital part of the Egyptian economy, employing at least two workers for every one employed by AAV.

Jeep vehicles built in the AAV plant are engineered for the desert terrain of the Middle East and the road and trail systems of Africa. If your Ministry or company requires durable 4-wheel drive vehicles for utility or industrial applications, they should be supplied by AAV.

Arab American Vehicles Company is an excellent example of cooperative technology transfer between Egypt and the United States. We invite you to profit by it, by talking to us about our vehicles and export capabilities.

For more information, contact: Eng. Anwar Salem, Chairman of the Board, AAV, P.O. Box 2419, Horeia, Heliopolis, Cairo, Egypt. Telex: 93791 AAV UN. Telephone: 603418, 603427. In the United States, call Peter J. Noonan, Managing Director, AAV, American Motors Corporation, Southfield, Michigan. Telephone: (313) 827-2980.

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Pepsi Hits the Egyptian Spot With Two Types of Partner

WHILE THE Egyptians are focusing more and more on exports, they still have the welcome mat out for private investments, both domestic and foreign. Investment Law 43 of 1974 and subsequent amendments remain the vehicle for government efforts to attract foreign participation in the nation's development.

Foreign investors have been encouraged to form joint ventures with public sector entities or private local investors. An outstanding example of success in such ventures is Pepsi-Cola, which is the only soft drink company to have both government and private partners in Egypt.

The Pepsi sign is a familiar one in Egypt and has been for 35 years. When the hot summer sun beats down and some 45 million Egyptians grow thirsty, Pepsi-Cola is a welcome cooler.

It comes as no surprise that Pepsi, with two aggressive bottlers in the market that have solved sometimes-horrendous traffic problems to deliver the goods to thousands of dealers, has garnered the largest share of soft drink sales in Egypt. Last year Pepsi had a 44 percent share of cola sales. The Mirinda and Teem brands had a 29 percent share of the flavor market. The two combined had 40 percent of the total market.

Evidence of Pepsi's long-term commitment to the nation was the opening last fall of two new plants, bringing to seven the number operated by the public sector Egyptian Bottling Company. Misr Company for Soft Drinks and Food Preservation, a private bottling venture, operates three plants. It too is investing heavily in major overhauls of production facilities.

One of the public sector company's new production facilities, in Port Said, gives Pepsi the capability to supply the underserved Suez Canal Zone and Eastern Delta and Sinai regions. Fully operational, the 300-employe plant will produce 30,000 cases of Pepsi-Cola daily. This job-producing venture adds to an impressive network of ancillary job-creating businesses, such as glass bottle and bottle cap manufacturing, carbon dioxide gas production and transportation.

"With the opening of the production facility in Port Said, Pepsi-Cola International has added a vital building block to its growing network of global partnerships," says Chris Albright, senior vice president, Middle East/Africa. "Equally gratifying, however, is the knowledge that, in so doing, we are strengthening our alliance with the people of Egypt and rededicating ourselves to the principle of mutual prosperity."

The story of Pepsi in Egypt is a saga of courage and determination.

"When Pepsi was first introduced into the ancient land of the pharaohs 35 years ago," notes Albright, "there was virtually no infrastructure. It had to be created. Our bottler had to import trucks and glass and make his own caps. Many of the retailers had never sold branded soft drinks before, and Pepsi-Cola literally had to build the foundations of the operations in a challenging market."

The first step in the Pepsi success story was awarding the initial franchise to EBC, the public sector company, in 1949. Mahmoud Khalil, who was with the firm from the start and retired as chairman in 1983, recalls when EBC began bottling 6,000 cases daily with a 40-spout filler machine.

EBC, now under the direction of Chairman Salah Ammar, will produce more than 165,000 cases daily from its seven plants during the peak season.

The next milestone in Pepsi operations was the awarding of the private sector franchise to Misr Company for Soft Drinks and Food Preservation—MISROOB—in 1979. Under the leadership of Managing Director Nabil Radwan, the company made impressive gains with an aggressive marketing program.

MISROOB sent out two-man teams—it calls them "blitz crews"—to solicit new dealers. A team would call on a new account that had not sold soft drinks before and would make an agreement for placement of a cooler. The team would then notify headquarters and move on to the next prospect. Meanwhile, headquarters would dispatch a truck with cooler and merchandise. The goal was same-day delivery.

The first year of operation—from a single plant—produced an average of 15,000 cases daily. Since then two more plants have been added, and MISROOB estimates that production in the peak season periods will top 100,000 cases daily.

But production alone does not ensure success, points out Khalil, EBC's retired chairman. "The reason for our success is the quality of the product. I would point out our good services to the distributors and dealers and finally the positive image of our products."

MISROOB's Radwan echoes this assessment, saying: "Our success has been dependent on keeping quality first by keeping our standards high and constant. We also believe in developing the basics of our business, and by that I mean having respect for our product, our company and dealers." Radwan adds that much of the success is due to support and assistance from the parent company, Arab Contractors, as well as Pepsi-Cola International.

"We at Pepsi-Cola are proud of our excellent relationships with both EBC and MISROOB and of what we have been able to accomplish together," says Pepsi-Cola International's Albright. "Ours is a commitment to partnership in progress and to the growth and resourcefulness of the Egyptian people and their economy." □

SPECIAL ADVERTISING SECTION

New Technology To Foil Product Counterfeiters

The problem, says Ronald A. Katz, a Century City, Calif., entrepreneur with an enviable track record, was to devise a foolproof method of protecting products from counterfeiters. The answer came when Katz's longtime colleague, computer scientist Robert N. Goldman, took a walk along the beach near his home in Hawaii.

Most anticounterfeiting efforts depend on attaching hard-to-copy "identifiers"—such as logos printed on thin film—to a product. Unfortunately, skillful counterfeiters can copy such visual identifiers and, by so doing, can move bogus goods into the marketplace because the products and their identifiers look genuine.

Kicking sand around on the beach, Goldman realized that the answer he and Katz sought was in the diversity of nature—in the uniqueness of each snowflake or each grain of sand.

The fiber patterns in one tiny portion of a piece of paper or fabric—or in any material from which labels are made—would differ from those in any other portion. So Goldman devised a system for using a computer-generated beam of light to read the patterns in a predetermined quarter-inch-square portion of a label, translating what it read into a code and printing the code number on the label. In effect, the label would be "fingerprinted."

A counterfeiter can visually duplicate a label and even its code number. But he cannot reproduce the random patterns in the label itself. Only the system can re-read the label and determine whether it is the original.

Goldman patented the technology and licensed it to Light Signatures, Inc., a company that he, Katz and Joseph F. DeLuna, a seasoned executive from Control Data, formed in 1981.

Signa One, a prototype able to process 3,000 units an hour, was built, and LSI began doing work on a test basis for Levi Strauss & Company and Chrysalis Records. The tests have proved so successful that both companies are expanding their use of the system. Other clients include Anheuser-Busch, Puritan Fashions (exclusive distributor for Calvin Klein), Arista Records and Nike, Inc.

Ronald Katz's company, Light Signatures, deters counterfeiters with a system that creates "fingerprints" for such labels as Nike, Levi's and Budweiser. Signa One is the prototype.

This month LSI introduces Signa Two, a second-generation system being built at a cost of nearly $1 million by Recognition Equipment, Inc., in Dallas. Signa Two will be able to process 100,000 units an hour at an average cost to the client of 2½ cents per unit. It will also be able to handle a wider range of documents and do magnetic printing.

How does the technology help foil counterfeiters? A Levi's field auditor might go into a store, buy a pair of jeans and have the label read by LSI. If it was not authentic, Levi's would know exactly where the counterfeits were being sold and could call on law enforcement agencies to take action. Or if a truck carrying goods was hijacked, a company would be able to identify the merchandise once it turned up.

As a result of the system, Chrysalis has confirmed four cases of counterfeiting, and 20 others are under investigation. Levi's has not uncovered any domestic incidents, but it is planning to use the system in other countries, where counterfeits of its products are a serious problem.

Katz, LSI chairman, is also excited about the way the system can provide an opportunity for a company to gather market data. Chrysalis has used a "fingerprinted" response card that customers can return to verify the authenticity of a record or cassette. The card also requests a great deal of demographic information about the customer—name, address, age, sex and the like.

Chrysalis had thought Pat Benatar's fans consisted exclusively of young women, but the return of 250,000 cards on two of her albums showed a large audience of 17- to 20-year-old males, too. So the company changed the slant of its advertising to reach both groups.

This is not the first time Goldman, 55, and Katz, 48, have teamed up to make a good idea work. In 1961, they created Telecredit, Inc., which offered the first system to prevent counterfeit check cashing in commercial establishments. They retired from Telecredit nine years later, Goldman for Hawaii and a life of study and Katz to get into investments. But the interests of LSI are so compatible with Telecredit, now a public company, that LSI became a subsidiary of the older firm early this year.

To Katz, the future of the technology

is limitless. He sees possibilities for protecting stock certificates and other securities and using paper keys instead of plastic.

In the works is a six-pound remote terminal that can verify documents on the spot and is expected to sell for under $1,000.

"The applications are like an octopus," Katz says, "and we are at just the end of one tentacle."

Money-Making For the Masses

Venita VanCaspel earned a degree in economics and finance as a young woman. Nevertheless, she recalls, "I had not been taught what to do with money."

For a while, that did not matter. She married and became, in her words, "a happy housewife." But when her first husband died in a plane crash in 1959, she was left with a small amount of insurance money and a strong desire to do something worthwhile with her life.

A Presbyterian, she considered church work. Back in school to take some graduate courses, she was startled to learn that only 2 people of 100 were financially independent when they reached age 65.

"I thought this was a tragedy and decided I wanted to help people be financially independent," she says. And for more than 20 years, she has pursued that mission with an evangelical fervor that would have served her well had she chosen a church career instead.

Today her Houston firm, VanCaspel & Company, a stockbrokerage that emphasizes financial planning, brings in more than $4.5 million in annual revenues, and she has won national recognition through a newsletter, television and radio. Her five books for Reston Publishing Company (the latest is *The Power of Money Dynamics*) have sold more than 700,000 copies. In April she embarked on her third Public Broadcasting System television series, "Venita VanCaspel: Moneymakers III."

To help people achieve financial independence, VanCaspel decided she would have to become a stockbroker. She hired on as a clerk in a Houston firm and, when the time came, she passed the exam to become licensed to deal on the New York Stock Exchange. But when she actually started working as a stockbroker—for a company that was skeptical about what a woman could achieve—she was given a desk and little else.

"What do I do now?" she wondered. She read a book on salesmanship and set out making cold calls one day. "I was defeated by noon," she recalls.

PHOTO: T. MICHAEL KEZA

Venita VanCaspel, whose books have sold 700,000 copies, runs a thriving financial planning firm.

The defeat did not last long. She prepared a letter offering herself as a speaker to women's clubs, and "I practiced on the women of Houston until I could make a speech."

When she could do that, she started conducting free financial planning seminars in department stores. "I wanted to reach the middle class," she chuckles. "I was going to be the stockbroker to the masses."

The technique was so successful in bringing in new clients that her employer asked her to start a branch office. It was expected to be in the red for three years, but VanCaspel says she had it in the black within a month. When the firm still refused to hire a secretary for her, she left for a company that "offered me the world tied up with a ribbon. They gave me two secretaries."

Working only as a stockbroker was too narrow. "People didn't need to be told whether a stock was going up or down a few points," she insists. "What people really needed was somebody to sit down with them and say, 'Here is where we are now, here is where we want to go, and here is how we are going to get there.'"

So she opened VanCaspel & Company in 1968 and eventually three affiliated companies to provide a full range of financial planning services. Her seminars are still free, but today they draw as many as 1,200 people, compared with the 9 who first came to hear her.

VanCaspel looks on financial independence as a moral imperative. "You have no right to expect that your fellow taxpayer should support you," she says. "For this responsibility, you should take care of yourself for as long as you live." She adds mischievously: "But you *don't* have a responsibility to pass it on. 'Being of sound mind, I spent it' is my philosophy."

Turning Daydreams Into Dollars

"I wasn't marked for success," recalls Terry Loebel. He was a poor student in the schools of Milwaukee, where he grew up. Everyone, even his mother, used to say, "The guy's a daydreamer."

One thing he did not lack: self-confidence. And he has turned his daydreams into a business that generates sales of $50 million annually.

The business is Val-Pak Direct Marketing Systems, which is headquartered in St. Petersburg, Fla., and has additional plants in Santa Ana, Calif., and Toronto. Every three months, Val-Pak (short for "valuable package") sends a packet of coupons promoting local businesses—dry cleaners and clothing shops, for example, or local franchises of national fast food chains—to targeted households in 200 key markets in the United States and Canada.

Not bad for someone who married straight out of high school and ended up running a freight elevator and working on the production line at an American Motors plant for the next nine years. It was a frustrating time.

"I would see things I thought could be done better," says Loebel (pronounced "label"). "I would submit an

Coupons roll off a press at Val-Pak, started by former auto assembly line worker Terry Loebel (right).

idea and it would be ignored." As he recalls, "You couldn't be creative in any way, shape or form."

When he was laid off in 1968, he sold his house and took the proceeds and his family of three to Florida, determined to do something on his own. He spent the next year soul-searching and got so bored that he read everything he could get his hands on—including consumer coupons. When a Carol Wright package of national coupons arrived in the mail one day, "the light came on," says Loebel, 44. If couponing worked for national firms like Kellogg's and Lever Brothers, why wouldn't it work for local businesses?

Borrowing $1,250 to get started, he went to the post office to learn what "bulk rate" meant. He began talking to printers and looking for a mailing house. And with beginner's luck, he made 30 sales calls and persuaded 14 prospects to buy the idea of inserting an advertisement in a local mailer.

The first time, Loebel did everything but the printing himself. When he stumbled on the problem of stuffing 14 pieces into 20,000 envelopes, he enlisted the help of friends and neighbors and their children.

Val-Pak began in Clearwater, Fla., and its success spread quickly. When, for example, the local outlet of a national firm got a good return (determined by the percentage of consumers who used a coupon), Loebel was asked to extend the service to other cities. Val-Pak now inserts 2 billion pieces into 94 million envelopes annually in the United States alone.

These days the coupons are sold by independent dealers, who do so well that, Loebel says, "it wouldn't pay them to be doctors." Loebel's 450 employees supply the graphic design, printing and mailing.

Loebel is now ready to compete against the company that originally inspired him, Carol Wright, by adding his first full roll-out of national coupons in August.

Turning his back on the way things used to be when he worked on the assembly line, he says: "We really listen to our people. They have some dynamite ideas."

Though he calls himself a Floridian now, Loebel also has homes on Long Island and in Lake Tahoe. Thanks to the telephone and overnight mail delivery, he explains, "I can do business from anywhere I choose to live."

And what does his mother think now of the daydreamer who has done so well for himself? Answers Loebel: "I don't think the shock has ever worn off."

Helping Lawyers Work Smarter

"Our mission," says Henry P. Semmelhack, "is to become the runaway leader of this marketplace." Then he adds: "We are already the leader." His chief competition? Wang and International Business Machines.

Semmelhack, 47, is president of Barrister Information Systems Corporation of Buffalo. His business: providing total automation systems—hardware, software and service—designed precisely to increase the productivity of law firms. He is part of the trend toward producing systems that are "specific by industry"—that is, he explains, "specially tuned and highly matched to their marketplace."

In 1968, Semmelhack, an electrical engineer, co-founded Comptek Research Inc., a defense contractor that provided computer systems for the Navy and Air Force. In the early 1970s, he and his partners were advised by their board of directors to diversify because the Vietnam War was winding down.

As they looked around for new markets, Semmelhack recalls, they discovered that the "real needs" of law firms were not being served by the computer industry. For example, law firms use more footnoting, paragraph numbering and tables of contents in their paperwork than other businesses do, and Comptek scientists knew programs could be designed to simplify production of legal documents. Software could also create the chronologies of events that are often necessary in litigation.

By 1973, Comptek had installed its first systems. Barrister, which was spun off as a separate company in 1982, now has offices in 19 cities and does business in 28 states. (Comptek went public last year, and Semmelhack is its second-largest shareholder.)

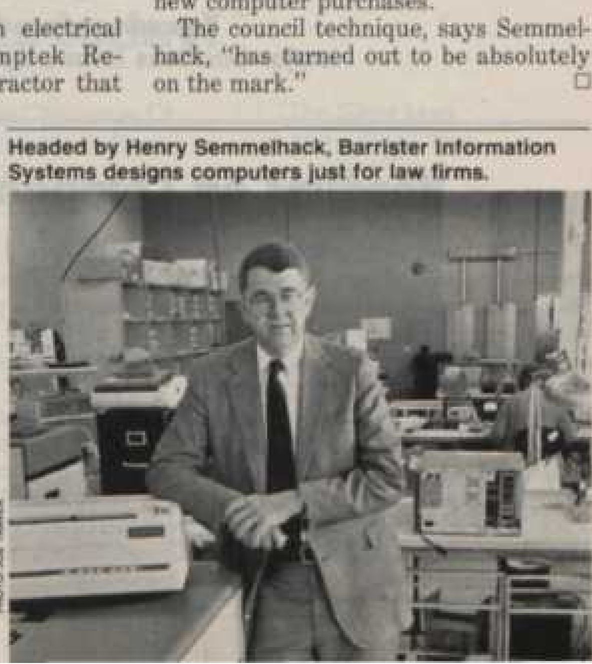
"We have approximately 300 installed clients right now," says Semmelhack, who expects revenues to exceed $20 million this fiscal year. One of Barrister's earliest customers, Stroock & Stroock & Lavan, first bought a $100,000 computer. This year, the law firm signed a contract with Barrister for a $1.5 million system linking its Wall Street headquarters to its offices in Los Angeles, Miami and Washington.

Barrister looks at how automation can be used to add to the productivity of every tier of a law firm, from the receptionist to the partners. It also tries to sell the computer as an appliance that anyone can use. This notion, says Semmelhack, is "very, very important" because the system is going to be run by people who are neither engineers nor scientists.

To keep on top of his market, Semmelhack created a "president's council" for himself. It consists of Barrister's leading customers, who meet with him quarterly to review and critique the firm's research and development plans and to discuss with him the needs of the legal profession. The forum also gives the customers a peek at what Barrister is up to, so that they can take that information into account as they plan new computer purchases.

The council technique, says Semmelhack, "has turned out to be absolutely on the mark." □

Headed by Henry Semmelhack, Barrister Information Systems designs computers just for law firms.



Where I Stand

1. Raise Taxes On Corporations?

The search for ways to reduce the huge federal deficit has turned some Capitol Hill eyes toward the corporate income tax.

There are charges that corporations do not pay a fair share of taxes. Proponents of this view cite a study performed by the Joint Committee on Taxation at the request of two Democratic congressmen. The study, based on annual reports of 213 large corporations, says that, thanks to Reagan administration tax cuts, the corporate tax level is too low.

Indeed, government figures show that taxes on corporate profits declined from 16.4 percent of federal receipts in 1980 to 8.9 percent in 1982. But defenders of current taxation levels note that 1982 was a recession year—corporate profits fell to 5.3 percent of the gross national product from 6.9 percent in 1980.

They also say corporate profits have been in a long downtrend in relation to the GNP. And they say critics of the corporate tax level ignore levies for Social Security, unemployment compensation and the like.

Should corporate taxes be raised to cut the budget deficit?

2. Mergers: More Federal Control?

With newspaper pages in recent months full of reports about corporate mergers, successful and foiled, investment bankers have predicted that 1984 will be the year of the proxy fight.

Some people have proposed that Congress enact a moratorium on big mergers pending a study of their effects. Noting that the past three years have seen the 10 largest mergers in U.S. history, these critics say that the merger process often wastes financial resources that could be used more productively. Also, they say megamergers could devastate the economy by eliminating small firms that operate efficiently.

Many business people, however, say that recent mergers have not resulted in undue concentrations of power in particular industries and that they constitute a free-market exercise of stockholders' right to the best possible return on investment.

It is also argued that economies of scale allowed by major mergers are a great asset for American firms encountering increasing competition in the world market.

Should Congress enact a moratorium on major mergers?

3. Simplify The Clean Air Act?

The Clean Air Act is designed to protect the public's health and the environment. But it also affects many aspects of the economy.

Air quality standards required under this law are having an impact whose pervasiveness was never intended, critics say. Domestic energy production is unnecessarily burdened, they say, and so is industrial development. They say the law is having a harmful effect on the balance of trade—not to mention employment.

Protecting public health is a goal everyone agrees with. The problem is with the strategies to achieve it. Present strategies are implemented through regulations that are often complex and difficult to deal with and that the critics say are sometimes counterproductive.

Many business people have urged Congress to amend the law's requirements so that they interfere less with economic growth—though not at the expense of cleaner air.

Other people have assailed this approach as an attempt to weaken the law and allow less-clean air.

Should the Clean Air Act be simplified in the interests of growth?

You can respond easily to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on Compensation, Training, Farm Role

Readers spoke out clearly on the three Where I Stand questions posed in the April issue of NATION'S BUSINESS: Should federal compensation be cut to compare to private sector levels? Should business people play a greater role in vocational education? Should the government move toward a reduced presence in agriculture?

By a landslide, readers supported reducing pay and benefits for federal civil servants, as the Grace Commission recommended. Greater business participation in vocational education was supported by a margin of more than 10 to 1. Vocational education bills are being considered in Congress. Drawing support by a margin of almost 9 to 1 was the proposition that the federal government should practice less subsidization and regulation of agriculture.

	Yes	No	Undecided
1. Compensation Cuts	93.4%	4.9%	1.7%
2. Jobs Training	85.2	8.0	6.8
3. Reduced Farm Role	81.7	9.3	9.0

More than 2,000 readers took part in the poll. Results will go to the appropriate government decision makers.

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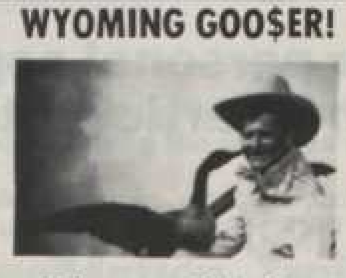

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The Right Man At the Right Time

It's a golden age for entrepreneurs. Van Smith, one of them, is the new chairman of the U.S. Chamber.

TALK ABOUT timing! Just when entrepreneurial fever in the United States is at an all-time high (nearly 600,000 businesses were started in 1983, compared with 329,000 a decade earlier), an entrepreneur takes over as chairman of the nation's largest business federation.

He is Van P. Smith, chairman and president of Ontario Corporation, a Muncie, Ind.-based family of small companies in fields ranging from metallurgy and forging to land development and software. Smith assumed leadership of the U.S. Chamber of Commerce on April 30 for a one-year term, succeeding Edwin D. Dodd, chairman and chief executive officer of Owens-Illinois, Inc.

One thing is certain about Smith: If he spots an opportunity to speak for the entrepreneur, he will seize it.

In March, as vice chairman of the Chamber board, he was a member of a Chamber delegation that went to the White House to meet with French President François Mitterrand. Soon after, a story floated around that Smith had taken with him a copy of the leading French business magazine, *L'Usine Nouvelle*. The magazine supposedly featured on its cover several young women wearing T-shirts, including one emblazoned with the name of Smith's company. Inside was an article on the contribution that entrepreneurs have made to the American economy. Smith presented the magazine to Mitterrand and began to make a pitch for small business.

Smith listens to the retelling of the story with a smile. Yes, he chuckles, everything is accurate—except that the people in T-shirts were men.

Van Smith's initiation into entrepreneurship began in 1956, when he, his stepfather, William W. Rich, and two others formed Ontario Corporation out of the former Ontario Manufacturing Company. A manufacturer of precision forgings, the old Ontario (so named because it originated in Canada) had been purchased from the National Silver Company. Rich was named president, and Smith, then a 27-year-old Muncie attorney, was elected secretary.

Rich had been an important part of Smith's life from childhood. Smith was only 2 when his father died. His mother, Rita, went to work at Oneida Limited, a silverware company in Oneida, N.Y., where she became secretary to Bill Rich, a rising executive. When Rich became president of another silver manufacturer, R. Wallace & Sons, in 1940, she moved to Connecticut to resume her role as his secretary there, taking young Van with her. They lived on one side of a duplex in New Haven; Rich and his first wife, Florence, occupied the other.

"Bill had been a very successful fellow in the community and had been the one I would go to for letters of recommendation and for encouragement as I was growing up," recalls Smith.

After Florence died, Bill Rich and Rita Smith were married.

"I went on their honeymoon with them," laughs Smith. He was a sophomore at Colgate at the time, and the wedding had taken place during the middle of exam week. He expected his grades to be "a disaster, but they weren't too bad." Smith subsequently earned a law degree at Georgetown University.

After he retired from Wallace, Rich was asked to run National Silver's Muncie operation—the old Ontario firm. Soon after, Rich, then 67, and his associates bought the plant. They began with 38 employes.

By 1963, Ontario had about 200 employes and sales of $3.5 million. But that year, says Smith, "Bill Rich and my mother both died within a period of 60 days." On Friday the 13th of September, Smith—just a few days short of his 35th birthday—became president and chief executive officer. And in 21 years under his leadership, Ontario has developed into an international operation, with 650 employes and $60 million in annual revenues.

TO BRING THIS ABOUT, Smith and his management team pursued a strategy of putting the company on sounder financial footing ("We had been borrowing a lot," Smith says, "so we had to put our house in better fiscal order") and diversifying. They wanted to move the company away from its near-total dependence on forging for the aircraft industry, while building on its capabilities of serving that industry. And they wanted the company to get into more products and to work with more metals and more difficult configurations.

But mostly, Smith attributes the com-

Top Priority: His Family

People who know Van P. Smith, new chairman of the U.S. Chamber and chairman of the Ontario Corporation in Muncie, say family comes first with him.

Smith's family includes his wife, Margaret, and their five children: Lynn, Mark, Paul, Susan—all college students—and Victor, a high school sophomore. ("As an Irish Catholic family, we're happy to see Susan Colleen go to Ireland for her sophomore year," notes Smith. She will be at St. Patrick's College near Dublin.)

Smith affirms that the family relationship is a strong one. There are a lot of meetings, in which the children and their parents work together to set family priorities.

"We have said as a family that each of us as an individual has four roles in life," says Smith. "Our personal relationship with a deity; our relationship with each other as a family and as individuals; our relationship with our profession, whether that be my job or their current responsibilities as students, and our relationship to the community."

One tradition in the Smith family: Before the last year of high school, each child gets to take a trip abroad alone with Dad. The youngster plans the trip and handles the money. It is a way to learn responsibility.

"It is a thrill just to see the relationship of that family," says David B. Weatherup, president of Central Fence of cny in Syracuse, N.Y., and one of Smith's close friends. Weatherup says a lot of people get their values mixed up, but not Van Smith: "He's got his head on right."

America's thriving entrepreneurial spirit is evidence of an opportunity for social mobility that is unique to the United States, says Chamber Chairman Van P. Smith.

PHOTO: T. MICHAEL KEZA

pany's growth to "people—fine people." He notes that Ontario has worked hard to bring together a staff with varying personalities and strengths. "It's best to have everybody recognize that we need different types of people. The differences make it perhaps more difficult to get along, but they are a necessary element of giving the organization a broad capability."

He adds: "Maybe the biggest contribution that a CEO can make is in the selection of people and then relying on those people to use their talents—and attempting to create an environment that allows individuals to utilize their talents—in the most expansive way possible."

The corporation is now made up of several wholly owned subsidiaries. Ontario Forge Corporation, the largest, forges titanium and nickel alloys for the aircraft industry. Pyromet Industries engages in high-temperature brazing and related metallurgical processes and has plants in San Carlos, Calif., and Muncie. Sherry Laboratories, a metallurgical and chemical testing laboratory serves about 400 companies nationwide.

There are, as well, Ontario Corporation (U.K.) Ltd., a forging company in Britain; an industrial land development firm called Ontario Development Corporation; Oil Equipment Services, in Houston, which refurbishes oil well drilling equipment; and Dumond Tool and Engineering Corporation of Sarasota, Fla., and CDS Engineering Corporation of San Jose, Calif., both precision machining organizations. An affiliate, Ontario Systems Corporation, is a software developer.

Last year Ontario sold WFFT-TV, an independent station it had built and operated in Fort Wayne. During most of the four years that Ontario owned it, the station placed in the top 10 of the more than 100 independents in market penetration, according to Smith.

Then why sell? "We had built an organization of about 40 young people—very capable, aggressive, talented people," Smith answers. To give them further opportunity, Ontario would have had to acquire some other stations. But when Smith and his staff learned what prices other stations were bringing, they chose another option: selling WFFT-TV to someone who already had several stations.

"It was a great experience," Smith says of Ontario's foray into broadcasting. "We enjoyed it very much, and we learned a lot."

SMITH'S community life has kept pace with his business responsibilities. He is now serving his 12th year on the Indiana Commission for Higher Education, of which he was chairman for four years. He is also on the national advisory council of the U.S. Small Business Administration, and he is immediate past chairman of the Indiana Manufacturers Association and a director of the Indiana State Chamber of Commerce. A former member of the Indiana House of Representatives, he is now chairman of the Indiana Republican Citizens Finance Committee.

People spoke well of Bill Rich, noting that he never made the people who worked for him feel that he was the president of the company—he seemed to be just one of the men, doing a job.

People speak just as highly of Rich's stepson. Perhaps even more highly. They observe, for example, that on at least two occasions, Smith has turned down invitations to the White House to keep previous commitments—once to preside at a retirement party, and another time to make a promised appearance before the Dayton chamber's small business council.

Ivan Elmer, a U.S. Chamber staff member who worked closely with Smith when the Indiana businessman was chairman of the Chamber's small business council, describes him as modest, gracious, understated and humorous. ("He has more Irish jokes than almost anybody but a professional stand-up comic.")

"He is considerate as very few people

with substantial influence are," observes Elmer. "He is concerned about what you think. It is not a facade or technique. That's just Van."

Underneath those "easy, gentlemanly qualities," Elmer says, Smith is tough. "He knows when it is necessary to make a hard decision."

Smith has won a reputation for his people-centered management style. For example, Ontario requires all its supervisors and executives to hold quarterly meetings with their employes. Even though it is a private company, they are urged to be candid and tell employes about operations, financial results, challenges in the marketplace and changes occurring in the industry. The employes, in turn, are encouraged to ask questions, make comments and offer ideas.

In Smith's view, the meetings give workers two opportunities: to go around an organizational structure that is necessarily somewhat rigid and find information they want, and to get things out in the open.

If an employe who is a chronic complainer around the coffee machine does not air his gripes at a quarterly meeting, Smith notes, "he loses credibility in his own factory environment. If he does bring them up, the plant manager has an opportunity to recognize those are challenges to face and correct."

Smith visits Ontario Forge Company, the largest member of the Ontario family, where employes handle a red-hot fan blade destined for a jet turbine engine.

Smith often attends the meetings himself. "I enjoy them and I hope every operating manager does," he says.

Asked if it is true that everyone, including employes on the plant floor, calls him "Van" instead of "Mr. Smith," he smiles and replies, "That's appropriate. I'm younger than most of them!"

Turning serious, he talks about how "one likes to see respect—respect that goes both ways." The boxes on an organization chart do not say anything about the character of the men and women who fill them, he says. If an organization really believes in the dignity of the individual, he adds, "there is a spirit of recognizing that one doesn't sit above another. All of us are side by side, challenging each other to be a little bit better in the broader sense."

DOES SMITH see any new direction in store for the U.S. Chamber? The Chamber has always been capable of changing to meet the tests of a changing environment, he answers. He views his own role as one of ensuring that the Chamber "continues to change to meet the new emerging challenges."

He calls attention to one change that has been taking place for some time—the federation's growth from 50,000 members to more than 200,000 under the leadership of President Richard L. Lesher. That change has been brought about "by accepting and encouraging and welcoming and involving many more smaller businesses throughout the country," Smith observes.

In his typically modest fashion, Smith acknowledges that it may be timely that he, a small business advocate of long standing, has the opportunity to be the Chamber's chairman this year. He sees the entrepreneurial spirit that is so robust right now as further evidence of the opportunity for economic and social mobility that is unique to the United States.

"If the Chamber, in its attempt to mold public policy-making, can assure that we do the things that not only protect entrepreneurial opportunity but perhaps encourage it more than we have in the past," he says, "I think it would make a great contribution not only to individuals, but to the nation as a whole." □

—Sharon Nelton

Meet the Vice Chairman

The new vice chairman of the U.S. Chamber of Commerce has spent his working life with automobiles, first as an employe of the Ford Motor Company, later with several dealers and since 1971 as owner of his own business.

Frank L. Morsani's company, which is closely held, is Automotive Management Services, Inc., headquartered in Tampa. It operates a leasing company and six dealerships in Florida and Nevada. Morsani says he still considers himself a small businessman, although his company's $130 million annual sales would "technically make it medium sized."

Morsani has been on the Chamber board of directors since 1977. He served a term as treasurer and headed the Chamber's small business council.

A native of Michigan, Morsani grew up on family farms in Arkansas and Oklahoma. He graduated from Oklahoma State University with a degree in automotive management and technology after serving four years in the Navy as an aircraft mechanic.

He and his wife, Carol, have two daughters, both married. Morsani has served on the boards of the University of Tampa and St. Joseph's Hospital, and he has been honored by both industrial and academic groups.

Frank L. Morsani: automobile sales and leases . . . and a baseball team.

Morsani also recently formed the Tampa Baseball Group to purchase a 42 percent interest in the Minnesota Twins American League baseball team. The group would like to get a majority interest and move the team to Tampa.

To order reprints of this article, see page 81.

What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
BANKRUPTCY	Congress faces an imminent deadline on court-ordered restructuring of bankruptcy judge system. A House-passed bill that includes antibusiness labor provisions awaits floor action in the Senate.	Members of the Senate: Support efforts to delete the labor provisions of H.R. 5174, which would reverse the Supreme Court's decision in the *Bildisco* case. If such efforts fail, oppose the entire bill.
DOMESTIC CONTENT	Last year the House caved in to protectionist sentiment and passed a bill designed to reduce auto imports. If the bill becomes law, foreign retaliation is expected to cause a net loss of jobs. Action soon in Senate Commerce Committee.	Members of the Senate: Oppose narrow-minded domestic content legislation that would cause more problems than it would provide solutions. This country prospers because of the free flow of trade; keep it that way.
IMMIGRATION	House Judiciary Committee made a much-needed improvement in the Senate-passed bill. Vital to maintain this voluntary paper work provision in bill when legislation goes to the House floor.	Members of the House: Important to keep the voluntary paper work language, offered by Rep. Thomas Kindness, in the final bill. To do otherwise would unnecessarily burden small business.
NATIONAL INDUSTRIAL POLICY	House Banking Committee has approved legislation calling for an expanded role for central government in allocation of capital and credit. Measure is ready for House floor action.	Members of the House: Oppose Banking Committee bill that would increase the federal government's role within our free enterprise economic system. Allow the market system to prosper.
APPROPRIATION BILLS	Congress will soon begin its annual task of adopting the 13 regular appropriation bills. Much of the total sum will have to be borrowed, putting upward pressure on interest rates.	Members of the House and Senate: Make the budget cuts agreed upon in the deficit reduction package. Don't jeopardize the recovery by passing bloated bills requiring more borrowing.
CLEAN WATER ACT	It has proven impossible for local governments to fully implement water pretreatment requirements contained in current law. Higher business costs will continue, with reduced compliance, until Congress passes a realistic law.	Members of the House: Allow local governments to design pretreatment programs tailored to meet local needs. Reduce excessive technical and administrative burdens having little impact on the quality of the water.
CONTRACTING OUT	Some members of Congress want to restrict the amount of goods and services the private sector supplies the federal government under contract. Business would be hurt if they succeed.	Members of the House and Senate: Allow the private sector to provide the best-quality product at the lowest competitive bid. Encourage contracting out to the private sector.

A Formula for Another Bureaucratic Nightmare

Equal pay for equal work is a legal requirement that can be administered fairly and efficiently.

Comparable pay for comparable worth is a vague concept that could be administered neither fairly nor efficiently if it ever became law.

But, as the article on page 30 points out, the comparable worth issue is heating up under pressure from public employe unions and feminist groups. They have achieved one victory and are now seeking others, including enactment of federal legislation.

Such legislation would empower a new or existing government agency to devise and administer a plan under which the same pay values would be assigned to widely disparate types of jobs. The common denominator would be the worth to society of such jobs.

Any business person who has had the slightest contact with Washington knows that this is a formula for a bureaucratic nightmare.

A new layer of regulators would issue new reams of paper containing incomprehensible directives. Employers would have to send back still more reams of paper on whether they did—or why they could not—comply.

The end result would not be more fairness on the job but a further demonstration of the economic havoc the federal government can cause when it presumes to dictate decisions best left to the marketplace.

Cleaning Up Our Act On the Environment

William D. Ruckelshaus left the post of administrator of the Environmental Protection Agency in 1973 and returned a decade later. Members of Congress now debating changes in basic environmental laws should give careful consideration to his appraisal of what happened in the interim.

He states: "We appear . . . to have lost much of our ability to turn environmental consensus into practical action. This is a startling and disturbing trend."

Ruckelshaus raises the fundamental question of whether the political and legislative methods that produced major antipollution laws in the past remain adequate in the light of today's much more complex environmental challenges.

In recent years, he says, the environmental agenda has not been set on the basis of explainable, rational analysis, "but by the press of public outcry and resultant political response."

He proposes development of a system of consensus building in which all the concerned groups—industrial, governmental, environmental—would work jointly toward "a society in which healthy economic and environmental values can coexist."

All Americans, he says, must "think of our relationship to our country as that of an individual to a team. . . . We are in this together."

Congress would do well to consider that advice from an individual so closely identified with the drive for a clean environment.

Business Benefit From Pioneering in the Sky

The closing of the American frontier late in the 19th century was viewed as the end of the pioneering era in the nation's evolution. Not so long afterward, the head of the U.S. Patent Office suggested his agency might soon have to be abolished because everything worth inventing had been invented.

But new generations of Americans continue to pioneer and to develop new products and processes. These activities are combined in the current space program.

The frontiers of space now offer opportunities for technological activity of direct benefit to businesses and to consumers (see the article starting on page 46). As James Beggs, head of the National Aeronautics and Space Administration, puts it, "Space will be the arena for expanding commercial activity in many areas."

This activity will build on the many commercial spinoffs from the technological developments that made space exploration possible, such as vastly improved devices to monitor hospital patients' conditions. Relatively few businesses will be directly involved in experimentation or actual production in space, but many others will benefit from the era of technological progress now beginning there. □


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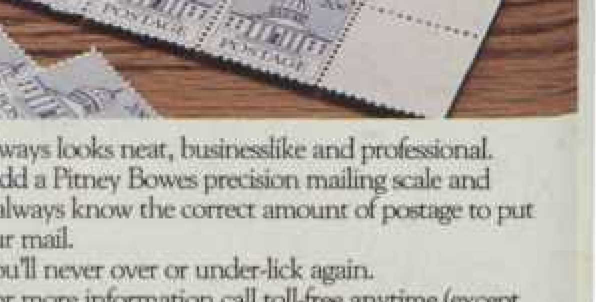

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